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1. General information on the Company

1.1. Company overview

Grupa Azoty S.A. (the “Company”) is a proven and well-recognized manufacturer whose value creation ability is founded on a partnership-based approach to developing lasting trading relations and understanding of needs. Its key operational areas include mineral fertilizers, plastics and intermediates manufacturing, sales and related services.

The Company is an integrated manufacturer of polyamide 6, marketed as Tarnamid®, obtained through caprolactam polymerisation. It is Poland’s only manufacturer of polyoxymethylene plastic, trademarked Tarnoform®. The Company manufactures and markets liquid and crystalline caprolactam, as well as engineering and modified plastics.

The Company is also a manufacturer of fertilizers in two granulation types: macro and standard. Its product portfolio includes:

- Saletrosan® (ammonium sulfate nitrate, ASN),
- calcium ammonium nitrate (CAN),
- ammonium nitrate (AN),
- ammonium sulfate (AS).

The Company operates its own research and development facilities – its laboratories perform over a million analyses a year. It concentrates both on research into new products and technologies, and on development of the existing products. The Company collaborates with a number of research and scientific centres.

Since 2008, Grupa Azoty has been listed on the Warsaw Stock Exchange (Giełda Papierów Wartościowych w Warszawie S.A.). Grupa Azoty has been a constituent of the CSR-focused RESPECT index since its launch on November 19th 2009. This is a proof that the Company is a stable and trustworthy corporate organisation with high management standards and an attractive investment profile.

The Company was entered into the register of entrepreneurs of the National Court Register (entry No. KRS 0000075450) on December 28th 2001 pursuant to a ruling of the District Court for Kraków-Śródmieście in Kraków, 12th Commercial Division of the National Court Register, of December 28th 2001.

Since April 22nd 2013, the Company has been trading under its new name Grupa Azoty Spółka Akcyjna (abbreviated to Grupa Azoty S.A.).

The Company’s core activities include manufacture of basic chemicals, fertilizers and nitrogen compounds, plastics and synthetic rubber in primary forms (PKD 20.1).

1.2. Organisational or equity ties between the Company and other entities

The Company has built a strong and dynamically growing group. Since December 5th 2012, all Group companies have been trading under a new common brand Grupa Azoty.

This modern brand, to be used by all Group entities, has been designed to clearly identify Grupa Azoty, its market position and product offering.

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

As at December 31st 2013, the Grupa Azoty Group (or the “Group”) comprised Grupa Azoty S.A. (the Parent) and eight subsidiaries (seven companies in which the Parent holds ownership interests above 50%, and one indirectly controlled entity), including:

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

Further:
• Grupa Azoty PULAWY is the parent to ten subsidiaries, and holds ownership interests in five associates,
• Grupa Azoty ZAK is the parent to two subsidiaries and two associates,
• Grupa Azoty POLICE is the parent to eight subsidiaries, and holds interests in two associates,
• Grupa Azoty PKCh is the parent to three subsidiaries,

Company’s equity interests as at December 31st 2013

<table>
<thead>
<tr>
<th>Company</th>
<th>Registered office / address</th>
<th>Share capital</th>
<th>% of shares directly attributable</th>
</tr>
</thead>
<tbody>
<tr>
<td>Grupa Azoty ATT Polymers GmbH</td>
<td>Forster Straße 72 03172 Guben, Germany</td>
<td>EUR 9,000,000</td>
<td>100.00</td>
</tr>
<tr>
<td>Grupa Azoty KOLTAR Sp. z o.o.</td>
<td>ul. Kwiatkowskiego 8 33-101 Tarnów, Poland</td>
<td>PLN 32,760,000</td>
<td>100.00</td>
</tr>
<tr>
<td>Grupa Azoty PUŁAWY</td>
<td>Al. Tysiąclecia Państwa Polskiego 13 24-110 Pulawy, Poland</td>
<td>PLN 191,150,000</td>
<td>95.98</td>
</tr>
<tr>
<td>Grupa Azoty ZAK S.A.</td>
<td>ul. Mostowa 30 A skr. poczt. 163 47-220 Kędzierzyn-Koźle, Poland</td>
<td>PLN 285,064,300</td>
<td>93.48</td>
</tr>
<tr>
<td>Grupa Azoty POLICE</td>
<td>72-010 Police, Poland</td>
<td>PLN 750,000,000</td>
<td>66.00</td>
</tr>
<tr>
<td>Grupa Azoty PKCh Sp. z o.o.</td>
<td>ul. Kwiatkowskiego 7 33-101 Tarnów, Poland</td>
<td>PLN 85,630,550</td>
<td>63.27</td>
</tr>
<tr>
<td>Grupa Azoty SIARKOPOL</td>
<td>Grzybów 28-200 Staszów, Poland</td>
<td>PLN 55,000,000</td>
<td>85.00</td>
</tr>
<tr>
<td>Associates</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Navitrans Sp. z o.o.</td>
<td>ul. Świętojańska 18/5 81-368 Gdynia, Poland</td>
<td>PLN 75,625</td>
<td>26.45</td>
</tr>
</tbody>
</table>
As at December 31st 2013, the Company also held non-controlling interests in 11 entities.

Company’s non-controlling interests as at December 31st 2013

<table>
<thead>
<tr>
<th>Company</th>
<th>Interest held</th>
</tr>
</thead>
<tbody>
<tr>
<td>Centrum Naukowo-Produkcyjne Materiałów Elektronicznych CEMAT’70 S.A.</td>
<td>1.24%</td>
</tr>
<tr>
<td>INWESTSTAR S.A.</td>
<td>0.06%</td>
</tr>
<tr>
<td>Konsorcjum Rozwoju Eksplatacji Majątku Trwałego EKSPLOSYSTEM Sp. z o.o.</td>
<td>3.36%</td>
</tr>
<tr>
<td>LEN S.A. w Likwidacji</td>
<td>0.29%</td>
</tr>
<tr>
<td>Tarnowska Agencja Rozwoju Regionalnego S.A.</td>
<td>0.06%</td>
</tr>
<tr>
<td>Tarnowski Klaster Przemysłowy S.A.</td>
<td>0.11%</td>
</tr>
<tr>
<td>Tarnowskie Wodociągi Sp. z o.o.</td>
<td>12.39%</td>
</tr>
<tr>
<td>Tłocznia Metali PRESSTA S.A. w Upadłości Likwidacyjnej (in bankruptcy</td>
<td>0.02%</td>
</tr>
<tr>
<td>Wytwórnia Silników PZL MIELEC Sp. z o.o. w Upadłości (in bankruptcy)</td>
<td>0.12%</td>
</tr>
<tr>
<td>Zakłady Tworzyw Sztucznych PRONIT S.A. w Upadłości (in bankruptcy)</td>
<td>0.28%</td>
</tr>
<tr>
<td>Zakłady Włókien Chemicznych WISTOM S.A. w Upadłości (in bankruptcy)</td>
<td>9.83%</td>
</tr>
</tbody>
</table>

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

- On January 18th 2013, following the European Commission’s final approval of the concentration, the Company gained control of Grupa Azoty PUŁAWY and its group. The Company acquired 73.48% of shares and voting rights in Grupa Azoty PUŁAWY, and its interest in the acquired company’s equity increased from 10.30% to 83.78%.
  As a result of the follow-up tender offer announced on February 19th 2013, on April 11th 2013 the Company acquired 2,329,357 shares in Grupa Azoty PUŁAWY, representing 12.19% of its share capital. The tendered shares were acquired purchased at a price of PLN 132.60 per share, and the total value of the transaction was PLN 308,873,000.
  The tender offer concerned 3,114,891 ordinary bearer shares in Grupa Azoty PUŁAWY, with a par value of PLN 10 per share, representing 16.30% of total voting rights at the company’s general meeting. The tender offer was announced following the Company’s exceeding of the 66% threshold of voting rights at the general meeting of Grupa Azoty PUŁAWY.
  As the Company exceeded the statutory 90% threshold in total voting rights at the general meeting of Grupa Azoty PUŁAWY, on April 22nd 2013 OPERA TFI SA requested a mandatory buy-out of its holding of Grupa Azoty PUŁAWY shares by the Company at the follow-up tender offer price, i.e. PLN 132.60 per share. As a result of the transaction, completed on May 22nd 2013, the Company acquired 16,269 shares in Grupa Azoty PUŁAWY (0.01%), for a total price of PLN 2,165 thousand.
  As at December 31st 2013, the Company held in aggregate 18,345,735 (or 95.98%) shares and voting rights at the general meeting of Grupa Azoty PUŁAWY.
- On September 25th 2013, the Company and the State Treasury entered into a conditional agreement for sale of 4,675,000 shares (an 85% interest) in Grupa Azoty SIARKOPOL of Grzybów. Rights attached to the shares were transferred upon the fulfilment of all conditions precedent. Approximately 25% of the aggregate share price was financed with Grupa Azoty’s own funds, with the balance sourced from a bank loan.
- The acquisition of shares in Grupa Azoty PUŁAWY affected the status of Navitrans Sp. z o.o. The company, which had previously been a Grupa Azoty associate, became majority-controlled by the Company. In Navitrans Sp. z o.o., the Company holds:
  - directly - 26.45% of voting rights,
  - indirectly, through Grupa Azoty PUŁAWY - 26.45% of voting rights,
  - indirectly, through Bałtycka Baza Masowa Sp. z o.o., an associate of Grupa Azoty PUŁAWY - 13.22% of voting rights.
- On October 21st 2013, the District Court of Kraków entered in the National Court Register a decision, made in the form of a resolution, to increase the share capital of Tarnowskie Wodociągi Sp. z o.o., from PLN 167,688,000, to PLN 169,875,500. After the share capital increase, the
Company's ownership interest in Tarnowskie Wodociągi Sp. z o.o. will decrease from 12.55% to 12.39%.

- On October 1st 2013, the Company signed an agreement to sell 300 shares in Francusko-Polskie Przedsiębiorstwo Instalacji Przemysłowych Polsnig Sp. z o.o., representing 2.67% of the company's share capital. As of the same date, the ownership title to the shares was transferred to the buyer, who paid the purchase price in full. At present, the Company holds no shares in this entity.

Under the agreement, its terms, and in particular the transaction price and the method of payment, are confidential and may not be disclosed unless such disclosure is required by law.

1.3. Branches (facilities) owned by the Company

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

1.4. Employment

Number of employees

<table>
<thead>
<tr>
<th>Employee group</th>
<th>As at Dec 31 2013</th>
<th>As at Dec 31 2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>blue collar employees</td>
<td>1,298</td>
<td>1,310</td>
</tr>
<tr>
<td>white collar employees</td>
<td>774</td>
<td>756</td>
</tr>
<tr>
<td>Total</td>
<td>2,072</td>
<td>2,066</td>
</tr>
</tbody>
</table>

Number of employees: average annual and as at the end of 2013

<table>
<thead>
<tr>
<th>Employee group</th>
<th>Average annual</th>
<th>At year end</th>
</tr>
</thead>
<tbody>
<tr>
<td>blue collar employees</td>
<td>1,309</td>
<td>1,298</td>
</tr>
<tr>
<td>white collar employees</td>
<td>767</td>
<td>774</td>
</tr>
<tr>
<td>Total</td>
<td>2,076</td>
<td>2,072</td>
</tr>
</tbody>
</table>

Employee turnover

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>New hires</td>
<td>70</td>
<td>41</td>
</tr>
<tr>
<td>Redundancies</td>
<td>64</td>
<td>35</td>
</tr>
<tr>
<td>Total</td>
<td>6</td>
<td>5</td>
</tr>
</tbody>
</table>

Employment by summary education

<table>
<thead>
<tr>
<th>Description</th>
<th>Year</th>
<th>Total employment</th>
<th>University or equivalent</th>
<th>Secondary</th>
<th>Vocational</th>
<th>Basic</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of employees</td>
<td>2013</td>
<td>2,072</td>
<td>487</td>
<td>834</td>
<td>630</td>
<td>121</td>
</tr>
<tr>
<td>Number of employees</td>
<td>2012</td>
<td>2,066</td>
<td>435</td>
<td>842</td>
<td>662</td>
<td>127</td>
</tr>
</tbody>
</table>

Employment by length of service

<table>
<thead>
<tr>
<th>Description</th>
<th>Year</th>
<th>up to 5 years</th>
<th>6-10 years</th>
<th>11-20 years</th>
<th>above 20 years</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of employees</td>
<td>2013</td>
<td>212</td>
<td>149</td>
<td>464</td>
<td>1,247</td>
</tr>
<tr>
<td>Number of employees</td>
<td>2012</td>
<td>128</td>
<td>134</td>
<td>531</td>
<td>1,273</td>
</tr>
</tbody>
</table>

Grupa Azoty
2. Company management principles

2.1. Company organisational chart
2.2. Changes in key management principles

Management model
In July 2013, the Grupa Azoty Management Board approved assumptions for a new management model for the Company and its Group, built on a process-based division of powers and responsibilities of the Management Board members. Consistent with the Grupa Azoty Group Strategy for 2013-2020, the model's primary objective is for the Group to grow value by operating as a single corporate organism.

In line with the model's assumptions, the functions offering most synergies, economies of scale, and operating efficiencies are centralised and core business processes are managed at the Group level, with the subsidiaries' identity, location and legal autonomy preserved.

The pillars of the new management framework are process leaders (individual members of the Management Board responsible for their respective processes owned), defined decision paths, decision-making transparency, and an incentive system. This framework ensures unmediated execution and communication of the developed strategies and objectives.

On August 20th 2013, a resolution was passed by the Management Board on the division of powers and responsibilities, reflecting the adopted assumptions. For detailed information on the division of powers among members of the Management Board, as per Resolution No. 467/IX/2013 of the Parent's Management Board, see p. 101 of the Grupa Azoty Group's consolidated financial report for H1 2013.

A communications system has also been developed within the Company and its Group, ensuring compliance with regulatory disclosure requirements for listed companies. Detailed solutions and operating procedures are provided for in relevant framework agreements between the Group companies.

To support implementation of the new model, on December 12th 2013 the Management Board set up the Grupa Azoty Council, an advisory and opinion-making body responsible for initiating and backing Group-wide projects and communicating their progress to the managements of individual Group companies. The Council's other responsibilities include providing opinions on strategic initiatives and related documents, supporting management processes, and co-organising the communications systems at the Company and the Group. The Council comprises members of the Grupa Azoty Management Board, members of the management boards of the Company's subsidiaries, and the Company's Managing Director.

Exercise of ownership – corporate governance policy
In order to standardise corporate management and supervision policies at the Company and the Group following the inclusion of Grupa Azoty PUŁAWY, and in anticipation of the then-planned acquisition of a majority interest in Grupa Azoty Kopalnie i Zakłady Chemiczne Siarki Siarkopol S.A., an amended text of the document ‘Exercise of ownership – corporate governance policy’ was adopted on July 8th 2013.

The overall purpose of the corporate governance policy is to have in place uniform procedures for managing individual business processes (business areas), and procedures for reporting information to the governing bodies and making disclosures to capital market participants; and to ensure that the disclosure requirements and the criteria for assessment of compliance with those requirements are uniform and consistent.

The policy is to guarantee successful implementation of the Company's strategy and the adopted Group management model. The model envisions gradual implementation of exacting corporate governance standards to facilitate full integration of the Group companies and improve the Group's communication with capital market participants. All these efforts are expected to add value to the Group as a whole and its constituent companies, and to help safeguard shareholder rights.

In line with the management model adopted and implemented by the Company's Management Board:

- by taking strategic decisions, the Management Board sets the main directions of the Group's policy, with the management boards of individual subsidiaries responsible for delivering specific operational tasks,

- coordinated management of business processes in compliance with the applicable standards and the exercise of influence over subsidiaries should be supported by dedicated committees,

- in order to meet the expectations of local communities and employees, preservation of the subsidiaries' current identity, location, and legal autonomy should be strived for,
• the model is geared towards implementing business processes across the organisation; members of the Company's Management Board are the leaders of core business processes, responsible for strategic oversight of process implementation, coordination of process changes, and rectification of any discovered irregularities.

The applied policies govern the objectives, methods and tools for exercising ownership at the Company and the Group. The document lists and outlines the following:
• objectives assumed and actions taken in exercising ownership,
• governing bodies (management board, supervisory board), and applicable appointment/recruitment, assessment and remuneration criteria and rules,
• corporate governance at the Group,
• guidelines in place at the Group for preparation by the governing bodies of materials and documents for general meetings, including materials and documents regarding approval of financial statements for a given financial year,
• dividend policy,
• management and stock-exchange reporting, and
• corporate standards.

Rules of Procedure for the Management Board
The rules of operation of the Company's Management Board are defined in the relevant Rules of Procedures. The division of powers and responsibilities among the Board members is determined by the Management Board by way of separate resolutions. The President and Members of the Management Board exercise supervision, coordinate and control the work of individual departments and corporate units with respect to their functions within the organisation. The operating rules for the Company and the Group, as well as decision-making policies applied in managing individual business areas (operating function) are laid down in such documents as the corporate agreement and relevant standards adopted on its basis.

2.3. Organisational changes at the Company
The need to adapt the Company’s organisation to the requirements of modern management for a large corporate group has necessitated a number of changes within the Company’s structure. The most significant of these include:

Appointment of the Procurement Committee
The Group established a Procurement Committee to implement the adopted strategy for key procurement areas. The Procurement Committee is supervised by the Vice-President of the Management Board responsible for supply chain management at Grupa Azoty, who is also the process leader.
The Committee’s responsibilities include analysis of current situation on markets for the Group’s strategic, key and auxiliary raw materials, interpretation of macroeconomic conditions, and preparation of forecasts for key procurement areas. The Procurement Committee oversees and coordinates implementation of Grupa Azoty's policies governing supply of strategic, key and auxiliary raw materials. The Committee also coordinates and approves raw material procurement budgets for the entire Group, broken down by individual companies.

Division of the Corporate Procurement and Logistics Department
The Corporate Procurement and Logistics Department was divided into the Corporate Procurement Department and the Corporate Logistics Department, the latter being in charge of logistics and warehouse management.
Restructuring of the Corporate Strategic Marketing Office
On December 1st 2013, the Corporate Strategic Marketing Office was transformed into the Corporate Strategic Research Office. The Corporate Strategic Research Office consists of the Market Research Division and the Cooperation and Regulation Division. The Corporate Fertilizer Sales Department took over the responsibilities previously discharged by the Product Brand Policy Division of the Corporate Strategic Research Office.

Appointment of the Trade Committee
The Trade Committee was established to ensure coherent management of the Agro segment across the Group. The President of the Company’s Management Board exercises expert supervision of the Committee’s operations. The Trade Committee analyses and defines trade policy for the Group's Agro segment, including composition of the product portfolio, production structure, product volumes allocated to specific markets, pricing policy, and other segment-relevant policy elements.

Expansion of the Shared Services Centre to include Company subsidiaries
As of January 1st 2014, the Shared Services Centre expanded its operations to include support for some of the Company's subsidiaries. The Centre will provide accounting, tax, HR and payroll services to the Company, as well as to Grupa Azoty Automatyka Sp. z o.o., Grupa Azoty Koltar Sp. z o.o., Grupa Azoty Prorem Sp. z o.o., and Grupa Azoty PKCh Sp. z o.o.

Establishment of the Plastics Segment
On January 1st 2014, the Company established the Plastics Segment, comprising the Plastics Business Unit in Tarnów and the Plastics Production Unit in Puławy, along with Caprolactam Sales Division in Puławy.

Changes in the structure of the Corporate Strategy and Development Department
On January 1st 2014, the following positions were established as part of the Department:
- Corporate Process Managers, reporting directly to the department director, whose main responsibilities include participation in and support of the work of process Leader and Administrator in managing business processes,
- Corporate Project Managers, reporting directly to the department director, whose responsibilities include project management at Grupa Azoty,
- Deputy Department Director, and subordinate organisational units.

Change of the name and structure of the Telecommunications Team
As of March 1st 2014, the Telecommunications Team, currently a part of the Infrastructure Centre, will be transferred to the Corporate IT Office. The Corporate IT Office will take over the tasks and responsibilities for mobile telephony and mobile Internet support, currently handled by the Investment Supervision and Settlement Office. The team’s current name will be changed to Corporate IT Office.
3. Company’s equity and other instruments. Significant shareholders

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

Number and par value of shares as at the date of issue of this Report:
- 24,000,000 Series AA shares with a par value of PLN 5 per share,
- 15,116,421 Series B shares with a par value of PLN 5 per share,
- 24,999,023 Series C shares with a par value of PLN 5 per share,
- 35,080,040 Series D shares with a par value of PLN 5 per share (issued in 2013).

The total number of Company shares is 99,195,484 ordinary bearer shares (ISIN code PLZATRM00012).

Company shares held by management personnel

<table>
<thead>
<tr>
<th>Number of shares / voting rights</th>
<th>As at Jan 1 2013</th>
<th>As at Dec 31 2013</th>
<th>As at Mar 12 2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>Jerzy Marciniak</td>
<td>2,000</td>
<td>n.a.</td>
<td>n.a.</td>
</tr>
<tr>
<td>Witold Szczypiński</td>
<td>639</td>
<td>-</td>
<td>-</td>
</tr>
</tbody>
</table>

On April 29th 2013, Jerzy Marciniak was dismissed from his position as President of the Management Board.

On May 17th 2013, the Company reported the following transactions in Company shares executed by Witold Szczypiński, Vice-President of the Management Board (see Current Report No. 93/2013):
- sale of 339 Company shares, for PLN 69.00 per share, executed on May 13th 2013 during regular trading on the main market of the Warsaw Stock Exchange,
- sale of 300 Company shares, for PLN 68.50 per share, executed on May 14th 2013 during regular trading on the main market of the Warsaw Stock Exchange.

As at the date of issue of this Report, none of the Management Board members held any shares in the Company.

Company shares held by supervisory personnel

<table>
<thead>
<tr>
<th>Number of shares / voting rights</th>
<th>As at Jan 1 2013</th>
<th>As at Dec 31 2013</th>
<th>As at Mar 12 2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tomasz Klikowicz</td>
<td>190</td>
<td>190</td>
<td>190</td>
</tr>
</tbody>
</table>

The holdings of Company shares by the supervisory personnel have not changed.

The Company’s other supervisory personnel did not hold Company shares as at December 31st 2013.

3.2. Agreements known to the Company which may cause future changes in the percentages of shares held by the existing shareholders and bondholders

The Company is not aware of any agreements which could lead to future changes in the number of shares held by the existing shareholders.
### 3.3. Control systems for employee share ownership plan

The Company does not operate any control system for employee share ownership plan.

### 3.4. Treasury shares held by the Company, Group companies and persons acting on their behalf

The Grupa Azoty Group companies do not hold treasury shares.

Company shares held by persons acting on behalf of the Grupa Azoty Group companies as at March 12th 2014

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

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

### 3.5. Equity and debt issues

For information on the offering of Series D shares carried out at the end of 2012 and in the beginning of 2013, see the Directors’ Report on the operations of Grupa Azoty S.A. for the twelve months ended December 31st 2012 (Note 3.5 Equity and debt issues, p. 10), and the interim condensed consolidated financial statements for the six months ended June 30th 2013 (Note 1.2. Acquisition of controlling interest in Grupa Azoty PULAWY, p. 19).

### 3.6. Use of proceeds from share issues

The Company had spent the proceeds from Public Offerings by the end of H1 2013. The proceeds were used in line with the original issue objectives. The cash value of the Company’s Public Offerings totalled PLN 897,246 thousand (including PLN 294,770 thousand raised during the 2008 offering and PLN 602,476 thousand raised during the 2011 offering).

The Company did not receive any cash proceeds from the share issue carried out at the beginning of 2013 as it was a non-cash offering.

By the end of 2013, the Company had used the proceeds in the following manner:

- to cover net share issue costs: PLN 16,327 thousand (PLN 9,298 thousand and PLN 7,029 thousand),
- to finance expenditure outlined as the issue objectives: PLN 880,919 thousand, including:
  - to finance the "Product Portfolio and Nitrogen Fertilizer Sales System Optimisation" project: PLN 38,000 thousand,
  - to finance the "Modernisation of Caprolactam Plant and Construction of New Hydrogen Facility" project: PLN 128,010 thousand,
  - to finance the "intensification of the modified plastics plant" project: PLN 23,490 thousand,
  - to increase polyamide production capacity (the "Polyamide II Plant" project, including acquisition of ATT Polymers GmbH): PLN 19,921 thousand,
  - to acquire a 66% interest in Grupa Azoty POLICE: PLN 569,250 thousand,
  - to acquire a 40.86% interest in ZAK S.A. from the State Treasury: PLN 102,248 thousand.

In 2013, the proceeds were used to implement the "Modernisation of Caprolactam Plant with Construction of New Hydrogen Facility” project, which was one of the objectives of the 2008 share
issue. The entire project had been completed by the end of 2013, with the financing comprising own funds and external sources. 
The objectives of the 2011 share issue were completed in 2011, in accordance with the assumptions outlined in the prospectus. The issue proceeds were used as originally designated.
The objectives of the most recent issue of Series D shares were also completed, through the acquisition of 18,345,735 shares in Grupa Azoty PULAWY; as a result, the Company's interest in Grupa Azoty PULAWY's share capital increased to 95.98%. 
The Company spent a total of PLN 880,919 thousand from the funds raised in the course of the Public Offerings to finance expenditure on the issue objectives, including PLN 7,769 thousand spent in 2013.
Expenditure to finance issue objectives incurred until December 31st 2013

<table>
<thead>
<tr>
<th>Project</th>
<th>Expenditure since Jan 7 2008</th>
<th>Borrowings</th>
<th>Own funds other than proceeds from equity offerings</th>
<th>Expenditure Jan 1–Dec 31 2013</th>
</tr>
</thead>
<tbody>
<tr>
<td>Modernisation of caprolactam plant with construction of new hydrogen facility</td>
<td>199,420</td>
<td>58,137</td>
<td>13,273</td>
<td>7,769</td>
</tr>
<tr>
<td>Optimisation of nitrate fertilizer product portfolio and sales system</td>
<td>50,089</td>
<td>6,291</td>
<td>5,798</td>
<td>-</td>
</tr>
<tr>
<td>Expansion of modified plastics facility</td>
<td>23,490</td>
<td>-</td>
<td>-</td>
<td>23,490</td>
</tr>
<tr>
<td>Polyamide II plant (including acquisition of shares in Grupa Azoty ATT Polymers GmbH)</td>
<td>19,921</td>
<td>-</td>
<td>-</td>
<td>19,921</td>
</tr>
<tr>
<td><strong>Total expenditure to finance objectives of first issue (2008)</strong></td>
<td>292,920</td>
<td>64,428</td>
<td>19,071</td>
<td>209,421</td>
</tr>
<tr>
<td>Acquisition of shares in Grupa Azoty POLICE</td>
<td>569,250</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Acquisition of shares in Grupa Azoty ZAK S.A.</td>
<td>200,090</td>
<td>-</td>
<td>97,842</td>
<td>102,248</td>
</tr>
<tr>
<td><strong>Total expenditure to finance objectives of second issue (2011)</strong></td>
<td>769,340</td>
<td>-</td>
<td>97,842</td>
<td>671,498</td>
</tr>
<tr>
<td><strong>Total expenditure to finance objectives as at December 31st 2013</strong></td>
<td>1,062,260</td>
<td>64,428</td>
<td>116,913</td>
<td>880,919</td>
</tr>
</tbody>
</table>

(all figures in PLN ‘000, unless indicated otherwise)
3.7. Share data

Grupa Azoty S.A. has been listed on the Warsaw Stock Exchange since June 30th 2008, and since February 19th 2013 it has been a constituent of the MSCI Emerging Markets Index. Grupa Azoty shares (ticker: ATT) are listed on the WSE main market in a continuous trading system, and are included in the WIG and mWIG40 indices and the chemical sector WIG-Chemia index. Since September 23rd 2013, the Company has been a part of the WIG30 index of the largest companies listed on the WSE. The Company has been included in the RESPECT Index, the first CSR-focused index in Central and Eastern Europe, since November 19th 2009.

On February 19th 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 presence in the index is expected to increase Grupa Azoty’s appeal in global capital markets and improve its standing among international investors.

MSCI indices have been published by Morgan Stanley since 1970. All other important information on Grupa Azoty shares, including information on voting rights restrictions, is presented in Section 10 of this Report - Statement of Compliance with Corporate Governance Rules.

Shareholding structure

<table>
<thead>
<tr>
<th>Shareholder</th>
<th>Shares</th>
<th>Ownership interest (%)</th>
<th>Voting rights</th>
<th>% votes</th>
</tr>
</thead>
<tbody>
<tr>
<td>State Treasury</td>
<td>32,734,509</td>
<td>33.00</td>
<td>32,734,509</td>
<td>33.00</td>
</tr>
<tr>
<td>Norica Holding S.̀.r.l.</td>
<td>15,216,094</td>
<td>15.34</td>
<td>15,216,094</td>
<td>15.34</td>
</tr>
<tr>
<td>ING OFE</td>
<td>9,883,323</td>
<td>9.96</td>
<td>9,883,323</td>
<td>9.96</td>
</tr>
<tr>
<td>TFI PZU S.A.</td>
<td>8,689,591</td>
<td>8.76</td>
<td>8,689,591</td>
<td>8.76</td>
</tr>
<tr>
<td>Aviva OFE</td>
<td>7,800,000</td>
<td>7.86</td>
<td>7,800,000</td>
<td>7.86</td>
</tr>
<tr>
<td>Aviva BZ WBK</td>
<td>5,700,000</td>
<td>5.75</td>
<td>5,700,000</td>
<td>5.75</td>
</tr>
<tr>
<td>EBRD</td>
<td>19,171,967</td>
<td>19.33</td>
<td>19,171,967</td>
<td>19.33</td>
</tr>
<tr>
<td>Total</td>
<td>99,195,484</td>
<td>100.0</td>
<td>99,195,484</td>
<td>100.0</td>
</tr>
</tbody>
</table>

including:

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

In the period from March 12th 2014 to the date of issue of this Report, the Company has not been notified of any changes in large holdings of its shares.

Share performance

Having continued the upward trend begun in January 2012, the Company shares opened 2013 at PLN 53.90. In the first quarter of 2013, the shares strongly appreciated, moving within the PLN 53-PLN 60 price range. The temporary plunge to a local minimum of PLN 54 in mid April 2013 marked the start of a rebound leading to a new all-time high of PLN 88.50 reached on May 21st 2013, which was followed by a period of gradual fluctuations with a downward trend bringing the share price down to PLN 65 in June 2013. A period of share price fluctuations within the range of PLN 65 - PLN 80 and a visible uptrend continued until October 2013, when in the second half of the month the share price broke through the upper-end of the range to finally reach PLN 84.75 on October 29th. Upon reaching the local high, the Company share price slid to PLN 60 in the second half of December. The Company share price closed for 2013 with a slight rebound to PLN 62.50.
Director's Report on the Operations of Grupa Azoty S.A. for the 12 months ended December 31st 2013 (all figures in PLN '000, unless indicated otherwise)

Company share price from the IPO (June 30th 2008) to December 31st 2013

![Company share price chart]

Source: GPWInfoStrefa, Grupa Azoty

<table>
<thead>
<tr>
<th>[tys.]</th>
<th>['000]</th>
</tr>
</thead>
<tbody>
<tr>
<td>Max (21 maja 2013)</td>
<td>Max (May 21 2013)</td>
</tr>
<tr>
<td>Min (3 luty 2009)</td>
<td>Min (Feb 3 2009)</td>
</tr>
<tr>
<td>Wolumen</td>
<td>Volume</td>
</tr>
<tr>
<td>Cena</td>
<td>Price</td>
</tr>
<tr>
<td>2008-06-30</td>
<td>Jun 30 2008</td>
</tr>
<tr>
<td>2009-03-18</td>
<td>Mar 18 2009</td>
</tr>
<tr>
<td>2009-12-02</td>
<td>Dec 2 2009</td>
</tr>
<tr>
<td>2010-08-20</td>
<td>Aug 20 2010</td>
</tr>
<tr>
<td>2011-05-10</td>
<td>May 10 2011</td>
</tr>
<tr>
<td>2012-01-25</td>
<td>Jan 25 2012</td>
</tr>
<tr>
<td>2012-10-12</td>
<td>Oct 12 2012</td>
</tr>
<tr>
<td>2013-07-09</td>
<td>Jul 9 2013</td>
</tr>
</tbody>
</table>

Dividend policy

The guiding principle behind Grupa Azoty's dividend policy is to make payments proportionate to the Company's earnings and financial standing. In its proposals for dividend distribution, the Management Board's primary focus will be to ensure the necessary levels of financial ratios, continued good financial standing and sufficient financial resources to support the Company’s further development. In future, the Management Board will recommend to the General Meeting dividend distributions of no more than 40-60% of the Company’s net profit for a given financial year. However, the dividend policy may be revised by the Management Board as and when required, and any decisions in this respect will take account of a number of factors concerning the Company and the Grupa Azoty Group, including business prospects, future profits, cash needs, financial standing, growth plans and related legal requirements. The final decision on distribution of profit for a given financial year is made by the General Meeting by way of resolution.

The dividend policy is presented in the Grupa Azoty Group Strategy for 2013-2020. In the reporting period, the Company distributed profit for 2012. On April 17th 2013, the Annual General Meeting passed a resolution to distribute PLN 148,793,226 as dividend for 2012. The dividend per share was PLN 1.50. The dividend record date was April 22nd 2013, and the dividend was paid out on May 24th 2013.
Recommendations

Recommendations for Company shares, published between January 1st 2012 and the date of issue of this Report

<table>
<thead>
<tr>
<th>Date</th>
<th>Recommendation</th>
<th>Target price (PLN)</th>
<th>Price at recommendation date (PLN)</th>
<th>Broker</th>
</tr>
</thead>
<tbody>
<tr>
<td>Feb 10 2014</td>
<td>SELL</td>
<td>50.20</td>
<td>52.50</td>
<td>DM IDM SA</td>
</tr>
<tr>
<td>Jan 31 2014</td>
<td>HOLD</td>
<td>56.50</td>
<td>52.60</td>
<td>Raiffeisen</td>
</tr>
<tr>
<td>Jan 30 2014</td>
<td>SELL</td>
<td>50.30</td>
<td>52.53</td>
<td>DM BZ WBK</td>
</tr>
<tr>
<td>Jan 29 2014</td>
<td>ACCUMULATE</td>
<td>65.60</td>
<td>52.50</td>
<td>Millenium DM</td>
</tr>
<tr>
<td>Jan 20 2014</td>
<td>SELL</td>
<td>51.50</td>
<td>55.49</td>
<td>ING Securities</td>
</tr>
<tr>
<td>Dec 30 2013</td>
<td>SELL</td>
<td>51.20</td>
<td>64.00</td>
<td>DM BDM</td>
</tr>
<tr>
<td>Dec 17 2013</td>
<td>SELL</td>
<td>61.45</td>
<td>66.94</td>
<td>PKO BDM</td>
</tr>
<tr>
<td>Oct 24 2013</td>
<td>SELL</td>
<td>63.20</td>
<td>82.25</td>
<td>DM BZ WBK</td>
</tr>
<tr>
<td>Oct 15 2013</td>
<td>SELL</td>
<td>62.70</td>
<td>77.20</td>
<td>Wood&amp;Company</td>
</tr>
<tr>
<td>Sep 24 2013</td>
<td>SELL</td>
<td>59.00</td>
<td>78.85</td>
<td>DM BZ WBK</td>
</tr>
<tr>
<td>Sep 12 2013</td>
<td>BUY</td>
<td>85.60</td>
<td>71.73</td>
<td>Espirito Santo</td>
</tr>
<tr>
<td>Jul 25 2013</td>
<td>SELL</td>
<td>56.90</td>
<td>70.60</td>
<td>ING Securities</td>
</tr>
<tr>
<td>Jul 16 2013</td>
<td>SELL</td>
<td>55.00</td>
<td>70.61</td>
<td>DM IDM SA</td>
</tr>
<tr>
<td>May 22 2013</td>
<td>HOLD</td>
<td>75.00</td>
<td>74.50</td>
<td>Raiffeisen</td>
</tr>
<tr>
<td>Apr 21 2013</td>
<td>HOLD</td>
<td>58.00</td>
<td>65.40</td>
<td>DM IDM SA</td>
</tr>
<tr>
<td>Feb 18 2013</td>
<td>SELL</td>
<td>51.00</td>
<td>56.00</td>
<td>Wood&amp;Company</td>
</tr>
<tr>
<td>Feb 5 2013</td>
<td>SELL</td>
<td>49.70</td>
<td>54.90</td>
<td>ING Securities</td>
</tr>
<tr>
<td>Jan 28 2013</td>
<td>BUY</td>
<td>67.00</td>
<td>56.90</td>
<td>Raiffeisen Centrobank</td>
</tr>
<tr>
<td>Jan 25 2013</td>
<td>HOLD</td>
<td>61.20</td>
<td>57.40</td>
<td>Wood&amp;Company</td>
</tr>
<tr>
<td>Jan 23 2013</td>
<td>NEUTRAL</td>
<td>54.10</td>
<td>56.00</td>
<td>Millenium DM</td>
</tr>
<tr>
<td>Jan 2 2013</td>
<td>HOLD</td>
<td>55.00</td>
<td>56.40</td>
<td>DM IDM SA</td>
</tr>
</tbody>
</table>

Investor relations

Acting in accordance with the highest standards of capital market communications and corporate governance, the Company provides all market participants, in particular current and prospective shareholders, with exhaustive and reliable information on events taking place at the Company and the Grupa Azoty Group. In its in communications with investors, the Company goes above and beyond the statutory disclosure requirements. The Company pursues an open information policy in response to the high expectations of capital market participants.

Following publication of periodic reports, the Company and the Group hold conferences to present and discuss their financial performance. As part of the consolidation process, such conferences are held jointly by all issuers from the Group to present a coherent picture of the Group to the investors and analysts. In 2013, representatives of the Company also met with capital market participants during numerous one-on-one meetings and conferences. Since its IPO, the Company has held annual meetings with retail investors during the Wall Street conference and the affiliated Targi Akcjonariat fair, both organised by the Association of Individual Investors.

In response to the shareholders’ expectations, the Company makes every effort to ensure that the published information is disseminated among as many recipients as possible. To this end, in 2013 the Grupa Azoty Group began to publish its most important announcements also in social media. As an issuer, the Company is aware of the importance of two-way communication with shareholders, which is why it plans to hold virtual investor meetings following publication of each periodic report. In 2013, two such meetings were held with the Management Board, co-hosted by the Association of Individual Investors, transcripts of which were published on Grupa Azoty’s corporate website.

The corporate website is a key tool for communicating with the capital market, featuring Company’s current and periodic reports, important information about AGMs and EGMs, analyst
recommendations and financial results. The new website, with its dedicated investor section, were upgraded to provide more precise capital market information in a more user-friendly manner. The content and high quality presentation of the IR section were recognised by the jury of the Golden Website Award for Listed Companies, organised by the Polish Association of Listed Companies. In the 4th edition of the competition, the Grupa Azoty’s website qualified to the final stage of the contest, where it competed with other listed companies from the WIG20 and mWIG40 indices. Grupa Azoty’s IR efforts were also recognised by investors, who praised the Company’s active participation in the Akcja Inwestor campaign in the popular Polish economic daily Puls Biznesu. Consequently, the Company has been honoured with the prestigious “Responds to Investors” mark since August 2010.

4. Business overview

The Company, which is also the parent of the Grupa Azoty Group, is a major player on the chemicals market in Poland and in Central and Eastern Europe. Its product portfolio includes mineral fertilizers, plastics and organic chemicals. The Company’s business is divided into the following segments:

- Agro Fertilizers,
- Plastics,
- Other Activities.

The Company also sells chemical products and energy, and provides laboratory, logistics, port and other services.

Fertilizers

Fertilizers are a particularly important segment for the Company, with the key products including: Saletrosan® (ammonium sulfate nitrate), Saletrzak (calcium ammonium nitrate – CAN), ammonium nitrate, and ammonium sulfate. Nitrogen-sulfur fertilizers are a core part of the Company’s fertilizer portfolio and include Saletrosan® and ammonium sulfate. Nitrate fertilizers are primarily obtained through mechanical granulation and offer excellent spreading properties.

Engineering plastics

The Company is a major polyamide 6 producer, ranking 4th in the European Union. The segment’s products also include caprolactam, cyclohexanone, cyclohexanol, and intermediate products manufactured on site. It is also Poland’s only producer of polyacetal (POM). Plastics within the segment are manufactured in both natural and modified forms, with the latter including Tarnamid®, which is the trade name of polyamide 6 (PA6). A wide array of polyamides features plastics with technical properties tailored to specific applications. The Company also offers polyacetal (POM) either in natural form (marketed as Tarnoform®) or modified (acetal copolymer). Engineering plastics are mainly used in the automotive industry, in household appliances, and in packaging.

Other Activities

The Company manufactures other organic and non-organic chemicals as well as catalysts for selected chemical syntheses, and for production of ammonia, hydrogen and synthetic gas. The Company’s product range includes the following catalysts:

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

The Company sells electricity to external customers and provides a wide range of services, including environmental protection, administration, testing-related diagnostic and inspection services, and management of the organisation’s property. The Company operates its own research facilities which focus on development of existing products as well as on research and development of new products and technologies. With its R&D facilities the Company is able to market new products and product types and to work closely with customers.
4.1. Overview of key products

Nitrogen fertilizers

**Saletrzak 27**
Saletrzak 27 standard is a granulated nitrogen fertilizer 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 fertilizer with valuable ingredients: calcium and magnesium.

**Saletrzak 27+B standard with boron**
Saletrzak 27+B standard with boron is a granulated fertilizer consisting of evenly-sized granules, ranging from brown to beige in colour and 0.6-4.0 mm in size, which comprise no less than 94% of the fertilizer’s volume. The granules are coated with an anti-caking agent preserving the granular nature of the fertilizer. Bulk density: 1.02 kg/dm$^3$.
This fertilizer is composed of ammonium nitrate with the addition (filler) of dolomite powder, which contains calcium and magnesium.

**Ammonium nitrate 30 makro**
Ammonium nitrate 30 makro is a granulated fertilizer with evenly-sized granules ranging from brown to beige in colour. It contains anti-caking agents, which prevent the granules from permanent caking. The granules range from 2 mm to 6 mm in size and comprise no less than 95% of the fertilizer’s volume. Bulk density: 0.96 kg/dm$^3$. Ammonium nitrate 30 makro contains ammonium nitrate with the addition (filler) of dolomite powder, which contains calcium and magnesium.
The fertilizer 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 (UAN)**
Urea ammonium nitrate solution (UAN) is a water-based solution of ammonium nitrate and urea at a 1:1 molar ratio. It is a clear, colourless or slightly yellow liquid, with a slight odour of ammonia and a pH of over 7.0. UAN is available in two variants with different concentrations of nitrogen: 28% (UAN 28) and 30% (UAN 30). The UAN 28 contains 28% nitrogen, with no less than 7.1% ammonium nitrogen, 7.1% ammonium nitrate and 13.8% amide nitrogen. Its density is 1.28 kg/dm$^3$. The UAN 30 contains 30% nitrogen, with no less than 7.6% of ammonium nitrogen, 7.6% ammonium nitrate and 14.8% amide nitrogen. Its density is 1.30 kg/dm$^3$.

Nitrogen-sulfur fertilizers

**Saletrosan® 26 makro**
Saletrosan® 26 makro is a granulated fertilizer with evenly-sized granules ranging from brown to beige in colour. It contains anti-caking agents, which prevent the granules from permanent caking. The granules range from 2 mm to 6 mm in size and comprise no less than 95% of the fertilizer’s volume. Bulk density: 0.98 kg/dm$^3$. Saletrosan® 26 makro is a blend of ammonium nitrate and ammonium sulfate with the addition of dolomite powder, which is rich in calcium and magnesium.
The fertilizer contains 26% nitrogen (N), including 19% in ammonium form and 7% in ammonium nitrate form, and 13% water-soluble sulfur (S) in sulfate form [the equivalent of 32.5% volume if converted to sulfur trioxide (SO$_3$)].

**Ammonium sulfate AS 21**
Ammonium sulfate AS 21 is a crystalline fertilizer, light brown to grey-beige in colour, with anti-caking properties.
The fertilizer contains 21% nitrogen (N) in ammonium form and 24% water-soluble sulfur in sulfate form [the equivalent of 60% volume if converted to sulfur trioxide (SO$_3$)].
Plastics

Tarnamid® (PA6)

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

Tarnoprop C and H (PPC, PPH)

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

Tarnodur A (PBT)

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

4.2. Sales markets and sources of strategic raw materials

The Company enjoys a strong position in domestic and foreign chemical markets. Its products are mainly marketed in EU countries, particularly Poland, Germany, Belgium, the Czech Republic, France and Italy.

Fertilizers are the key product sold in the domestic market. Exports to the EU and Asia are mainly plastics, and to South America - fertilizers.

Sales by geographies in 2013 (by volume)

Source: Company data

The Company had one customer with a more than 10% share in its 2013 revenue, i.e. Grupa Azoty ATT Polymers GmbH, a subsidiary.
Feedstock and materials
For the most part, the Company procures its manufacturing materials domestically. Phenol and benzene account for a significant part of supplies from other EU countries, while purchases from outside the EU mostly consist of ammonia.
PGNiG S.A. was the only supplier with a more than 10% share in the Company’s revenue in 2013.

Natural gas
The only domestic supplier of natural gas to the Company delivered the feedstock either from the transmission network or from local sources, in both cases under long-term agreements, with nitrogen-rich gas from local sources representing approximately 49.2% of total gas consumption by the Company. The Company secures natural gas supplies in line with the uniform procurement strategy adopted for the entire Group.

Ammonia
The Company's procurement strategy in this area is based on optimisation of intragroup ammonia supplies. The Grupa Azoty Group is Poland's largest ammonia manufacturer, and operates several ammonia units. Effective implementation of the procurement strategy largely depends on conditions prevailing on the fertilizer market.

Phenol
The Company’s phenol procurement strategy is based on two primary sources - Western Europe and domestic suppliers. Also, since 2013 regular supplies from Scandinavian producers have been secured to supplement the existing sources. The phenol market in 2013 was largely driven by benzene contract prices which are the principal component of phenol pricing formulae.

Benzene
Benzene is mainly delivered under one-year contracts, with supplementary purchases made on the spot market. The Company’s benzene procurement strategy is based on domestic sources and suppliers from Central and Eastern Europe. The Group is by far the largest benzene consumer in Poland and one of the largest in the region, which gives important competitive advantage. The caprolactam and polyamide markets re not the largest consumers of benzene as feedstock, which makes the price of the chemical sensitive to movements in other markets as well, including the ethylbenzene market.

Sulfur
The Company’s sulfur procurement strategy is based on optimisation of petrochemical sulfur supplies for the Grupa Azoty Group and on supplementary supplies from Grupa Azoty SIARKOPOL (the largest producer of liquid sulfur in Poland and the wider region). Effective implementation of the procurement process largely depends on conditions prevailing on the fertilizer market, particularly in its most sulfur-intensive segment of compound fertilizers.

Methanol
Methanol is mainly delivered under one-year contracts, with supplementary purchases made on the spot market. Since Poland is not a methanol producer, the entire domestic demand is covered from imports. Offering competitive prices and convenient logistics, suppliers in Russia are the key sources of methanol for the Company, with CEE manufacturers used as supplementary sources.
4.3. Key investments in Poland and abroad

The Company’s total capital expenditure in 2013 was PLN 134,920 thousand. This amount does not include maintenance capex (PLN 9,844 thousand) and other expenditure directly related to investment projects (PLN 3,412 thousand).

Structure of capital expenditure
- Business development: PLN 15,612 thousand
- Business continuity: PLN 83,223 thousand
- Mandatory investments: PLN 8,322 thousand
- Purchases of finished goods: PLN 27,763 thousand

Modernisation of the sulfuric acid facility was the largest project carried out by the Company. Its aim was to ensure the operational continuity of one of the key installations in the caprolactam plant, improve environmental footprint and increase the steam production ratio. The project was completed in December 2013. The capital expenditure totalled PLN 64,646 thousand, of which PLN 39,869 thousand was incurred in 2013.

Upgrade of the interior of ammonia synthesis reactors. The objective of the project was to provide new interiors in the ammonia synthesis reactors and to increase the heat and cold exchange surface areas in the exchangers. The project will reduce the cost of ammonia production by reducing consumption of electricity needed to compress synthesis gas and cooling ammonia, making better use of reaction heat to produce steam, and reducing consumption of the coolant. A contractor has been selected to perform the project on an EPC basis, and the work has progressed as planned. In 2013, work on the first reactor was completed. Final completion of the project is planned for 2014. The project’s budget is PLN 18,600 thousand. Expenditure incurred so far is PLN 10,222 thousand, of which 9,827 thousand was spent in 2013.

Purchase and assembly of a new circulating hydrogen compressor for the phenol hydrogenation plant on the PD catalyst. This project will complete the upgrading of the selective phenol hydrogenation unit at the palladium catalyst. The project’s objective is to ensure continuity of operation of one of the key installations in the caprolactam production line. In addition to improved operational availability of the phenol hydrogenation unit, the project is also expected to increase hydrogen circulation and improve the catalyst operating conditions. The project has progressed as planned. Final completion of the project is planned for 2014. The project’s budget is PLN 16,200 thousand. Expenditure incurred so far is PLN 11,550 thousand, of which 11,499 thousand was spent in 2013.
Consolidation of IT systems across the Grupa Azoty Group. This is a project for consolidation of IT systems operated by Grupa Azoty and ZAK. It will improve the efficiency of managing the Group. The project is currently focused on the infrastructure and application layers. Final completion of the project is planned for 2014. The project’s budget is PLN 9,800 thousand. Expenditure incurred so far is PLN 9,036 thousand, of which PLN 780 thousand was spent in 2013.

Bulk fertilizer storage facility. This is a project for construction of a 10,000-tonne bulk fertilizer storage facility with auxiliaries. The new storage facility will be a part of the fertilizer production line and will enable the Company to season and to store in appropriate conditions its Saletrosan 26 Makro (macro granules ASN) and Saletrzak 27 Makro (macro granules CAN) products, and to properly complete the manufacturing process and improve the product quality. The corporate approval has been obtained, and the design has been commissioned from a design engineer selected in a competitive tender. Final completion of the project is planned for 2015. The project’s budget is PLN 43,000 thousand. Expenditure incurred so far is PLN 365 thousand, all of which was spent in 2013.

### 4.4. Bank deposits and equity investments

**Bank deposits**

In 2013, the Company's short-term funds were primarily held in a current account with PKO Bank Polski S.A., linked under virtual cash pooling with the Group companies' overdraft sub-facilities. The arrangement enables optimisation of interest income and expense throughout the Group. Those of Group companies which hold free cash with PKO Bank Polski S.A. earn interest on their deposits netted off with the overdraft facilities at a 1M WIBOR annualised rate. At the same time, the Group companies which use the overdraft facility held with PKO Bank Polski S.A. incur the same cost of credit at the 1M WIBOR annualised rate on drawn amounts netted off with the free cash. As at December 31st 2013, the Company had a PLN 112,128 negative balance in the current account held with PKO BP, of which PLN 58,467 was netted of with positive balances in other Group companies' accounts under the virtual cash-pooling facility. Also, the Group companies held other free cash, when available from time to time, in short-term deposits placed with reputable banking institutions offering highest interest rates, in particular rates above the 1M WIBOR annualised rate, on amounts netted off as part of the cash pooling services.

As at December 31st 2013, the Company held PLN 6,341 thousand in bank accounts and short-term deposits, and held PLN 8 thousand in hand. All Company's cash as at December 31st 2013, discussed above, is disclosed in the *Annual separate financial statements of Grupa Azoty S.A. for the 12 months ended December 31st 2013*, in Note 17 Cash, under item “Cash and cash equivalents” (p. 70). The Company earned a total of PLN 917 thousand in interest income on fixed-term deposits and from virtual cash pooling of funds deposited in accounts held with PKO Bank Polski S.A.

**Equity investments**

- **Acquisition of shares in Grupa Azoty PULAWY**

  At the beginning of 2013, the Company successfully completed a multi-stage acquisition of shares in Grupa Azoty PULAWY. On January 18th 2013, following the European Commission's final approval of the concentration, the Company gained control of Grupa Azoty PULAWY and its group. The Company acquired 73.48% of shares and voting rights in Grupa Azoty PULAWY, and its interest in the acquired company's equity increased from 10.30% to 83.78%. As a result of the follow-up tender offer announced on February 19th 2013, on April 11th 2013 the Company acquired 2,329,357 shares in Grupa Azoty PULAWY, representing 12.19% of its share capital. The tendered shares were acquired at a price of PLN 132.60 per share, and the total value of the transaction was PLN 308,873,000. The tender offer concerned 3,114,891 ordinary bearer shares in Grupa Azoty PULAWY, with a par value of PLN 10 per share, representing 16.30% of total voting rights at the company's general meeting. The tender offer was announced following the Company's exceeding of the 66% threshold of voting rights at the general meeting of Grupa Azoty PULAWY.
As the Company exceeded the statutory 90% threshold in total voting rights at the general meeting of Grupa Azoty PUŁAWY, on April 22nd 2013 OPERA TFI SA requested a mandatory buy-out of its holding of Grupa Azoty PUŁAWY shares by the Company at the follow-up tender offer price, i.e. PLN 132.60 per share. As a result of the transaction, completed on May 22nd 2013, the Company acquired 16,269 shares in Grupa Azoty PUŁAWY (0.01%), for a total price of PLN 2,165 thousand.

As at December 31st 2013, the Company held in aggregate 18,345,735 (or 95.98%) shares and voting rights at the general meeting of the acquired entity.

For more information on settlement of the transaction, see the Annual consolidated financial statements of the Grupa Azoty Group for the 12 months ended December 31st 2013, Note 1.2 "Changes in the Group’s structure".

- **Acquisition of shares in Grupa Azoty SIARKOPOL**

  On September 25th 2013, the Company entered into a conditional agreement for acquisition of an 85% interest in Grupa Azoty SIARKOPOL of Grzybów.

  On November 21st 2013, a protocol confirming delivery of the global share certificate was signed, which was the final condition precedent of the conditional share purchase agreement.

  The transaction was valued at PLN 320,004 thousand, which amount was transferred to the Ministry of State Treasury's bank account on November 15th 2013. Approximately 25% of the aggregate share price was financed with Grupa Azoty’s own funds, with the balance sourced from a bank loan.

### 4.5. Significant agreements

**Agreements significant to Company operations**

<table>
<thead>
<tr>
<th>Parties</th>
<th>Subject matter</th>
<th>Date</th>
<th>Current report</th>
<th>Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Company - PKO BP S.A. / PZU Życie S.A.</td>
<td>Amending agreement in the form of joint financing agreement</td>
<td>February 15th 2013</td>
<td>Current Report No. 35/2013 of February 15th 2013</td>
<td>PLN 710,992 thousand</td>
</tr>
<tr>
<td>Company - PKO BP S.A.</td>
<td>Annex to credit facility agreement</td>
<td>Aug 19 2013 of August 20th 2013</td>
<td>Current Report No. 113/2013</td>
<td>PLN 25,000 thousand</td>
</tr>
</tbody>
</table>

### 4.6. Significant related-party transactions

In 2013, the Company did not execute any related-party transactions on terms other than arm’s length terms.

### 4.7. Significant R&D achievements

The research work carried out in 2013 followed from the Company and the Group’s R&D strategy and focused both on optimisation of the Company’s key production lines and on new directions for development.

The most important R&D initiatives in 2013 included:

- optimisation and enhancement of the fertilizer manufacturing process through appropriate selection of inorganic additives and anti-caking agents improving the physical and chemical properties of the fertilizers,
- assessment of effectiveness and benefits of using the Company's fertilizers in agriculture,
- engineering new varieties of modified plastics, with the use of various additives enabling specialist application of the plastics, e.g. in the automotive industry; also improving polyoxymethylene quality,
- research into reduction of caprolactam manufacturing costs and improvement of the product quality through optimisation of operation of selected nodes.

Grupa Azoty
In 2013, Tarnamid® HF (high flow), a result of the Company's R&D efforts, received a distinction in the Materials and Aids for Plastics Processing category at the 17th PLASTPOL International Plastics and Rubber Processing Fair in Kielce.

4.8. Environmental performance

The Company holds all environmental decisions required by law, specifying the scope and manner of use of the natural environment, which due to the nature of its business the Company is required to obtain and hold.

Safety
The Company's business requires compliance with the most exacting safety standards, which minimise the risk of industrial incidents. Relevant solutions applied across the Group ensure appropriate conditions for the manufacture, storage, transport and distribution of substances to meet the natural environment protection requirements. The Company operates in the chemical industry and is classified as a facility with a high risk of a serious industrial incident. Being aware of the possible consequences of its operations, the Company strives to mitigate its negative environmental impact.

Advanced technological solutions enable the Company to actively engage in pro-environmental efforts, which are often a source of economic benefits as well. Ensuring the responsibility and safety of production processes is a fundamental principle of the Company and of the Group. Relevant incident prevention programmes have been devised and implemented, while safety matters are subject to regular reporting.

Rescue plans and safety management systems are in place for Company facilities. Given the nature of its business, the Company is subject to the requirements of the Environmental Protection Law, the Water Law, the Waste Act, and other regulations on environmental protection. The legislation imposes certain obligations on the Company with respect to the production activities, investment projects, reclaimation of contaminated soil and arrangement for appropriate conditions for the manufacture, storage, transport and distribution of substances.

The Company operates appropriate organisational and technical safety measures, such as CCTV systems, safeguards, and procedures for incident prevention and mitigation of consequences. Well-trained fire services capable of leading effective rescue operations, with additional support from chemical rescue teams and other services, are stationed at the facilities.

REACH
The Company adheres to the regulations that require thorough testing for hazardous properties of all marketed chemical substances, as well as introduction of usage rules and, in justified cases, usage restrictions and bans.

Pursuant to applicable regulations, Company products are treated as chemical substances or mixtures and are subject to Regulation (EC) No. 1907/2006 REACH.

The Company has fulfilled its obligation to register all of its manufactured substances.

Information on potential hazards related to chemical substances and mixtures is provided to customers in the form of MSDSs. MSDS drafting and updating procedures have been implemented at the Company, along with a system ensuring their full availability to customers.

Also, relevant procedures for product labelling (vehicles and packaging) have been put in place, to the extent required by the REACH Regulation, and by Regulation (EC) No. 1272/2008 on classification, labelling and packaging of substances and mixtures (CLP). The procedures reflect the new classification based on research under REACH registration.

The Company fulfils its obligations as a downstream consumer of chemical substances on a regular basis.

In 2013, the process of consolidation and close collaboration between the REACH departments within the Grupa Azoty Group continued. Updates and registration of chemicals and chemical substances were completed as required by the European Chemicals Agency.

These registrations reflect the current scope of the Company's business. Pursuant to the REACH Regulation, registration of further substances will be necessary in 2013 and 2018. These substances are manufactured to a limited extent (less than 1,000 tonnes/year) and are of lesser importance for the Company's revenue.
SPOT
With the safety of people, their property and natural environment in mind, the Company offers assistance in the event of incidents involving transport of hazardous materials. In 2001, the Company joined the Assistance System for Transport of Hazardous Materials (SPOT) Association. The system aids in recovery from incidents involving transport of hazardous materials. It helps to improve the safety of transport in Poland, and in case of any incidents it facilitates effective removal of their consequences by joint effort and measures of the national rescue, fire services and SPOT members. SPOT's help in actively preventing potential threats and damage to property as well as in providing assistance to rescue services allows hazardous materials to be transported in as safe and reliable a manner as possible.

Responsible growth
In 2013, as part of its R&D initiatives, the Company carried out work which will have a positive effect on the natural environment when completed. The areas of focus included:

- Optimisation of caprolactam production process
  Work continued to enhance the caprolactam production technology, to improve its quality and limiting the use of heat the process.
- Upgrade of iron-chromium catalyst production technology
  Work began on modernising the iron-chromium catalyst production, to improve product characteristics and minimise its environmental impact.
- Improvement of Tarnoform® production process
  Work continued to improve the quality of Tarnoform®-based products, and to reduce production costs.

Environmental projects
- Flue gas treatment unit
  The project has been undertaken to ensure compliance of the Company's industrial combustion sources to the requirements laid down in the Minister of Environment's Regulation on Emission Standards for Installations of April 22nd 2011 and the Industrial Emissions Directive. The project will involve upgrading the existing CHP II infrastructure and bringing the existing system to full compliance with the new requirements. As a result, the amount of pollutants emitted into the atmosphere by the Company's combustion sources will be reduced, improving air quality. The project is planned for 2013-2015.
- Upgrade of sulfuric acid facility
  This was a replacement and upgrade project involving delivery and installation of a new contactor system with heat exchangers and economisers, as well as a sulfur furnace with waste heat boiler. The benefits of the project include improved environmental performance, increased steam output, and enhanced unit production capacity. The project was completed in 2013.
- Upgrade of the interior of ammonia synthesis reactors
  The project is to reduce costs of ammonia production for the Company. Without any adverse effect on the current output, the project will reduce the cost of ammonia production by reducing consumption of electricity needed to compress synthesis gas and cooling ammonia, making better use of reaction heat to produce steam, and lowering consumption of the coolant. The project is planned for completion in 2014.
- Distillation of palladium-catalysed cyclohexanone rectification residue
  The project's objective was to reduce costs of producing cyclohexanone from phenol. It helped achieve savings from reduced consumption of phenol and energy (power, 0.9 MPa steam, 1.7 MPa steam, frigories, natural gas, and circuit water) used in cyclohexanone production. The project was completed in 2013.

Water and wastewater management
Water is used for industrial purposes, as a cooling agent, for drinking, to produce process waters, and by fire services. The Company draws water from two sources – a surface intake on the right bank of the Dunajec river and an underground intake from Quaternary water-bearing formations (first aquifer).
The allowed amounts of water drawn are specified in the relevant water-law permits.
The Company's industrial facilities generate industrial wastewater, which is routed for treatment via an underground industrial sewer system and trestle-supported sewer lines. The Company is well prepared for any wastewater system failure. In order to prevent wastewater escape, the system can be entirely shut off by closing the storm water outflow valve and pumping all wastewater to the Central Treatment Plant. It is also possible to flow the entire volume of wastewater to the Wastewater Treatment Facility operated by the Tarnów Water and Sewage Utility.

Relevant parameters of the industrial wastewater are monitored on an ongoing basis at individual system nodes with remote analysers. Also, wastewater samples are laboratory-tested for pollutants at a predetermined frequency.

Solid waste management
The main types of waste generated by the Company are ash and slag. The Company developed and operates a comprehensive system for collection of ash from boilers at the in-house CHP II. Captured dry ash is sold to third parties for commercial use. The purpose of the project was to reduce the environmental impact and save on costs of waste storage. Since the second half of 2012, slag has been the only waste from heat and power generation stored by the Company. The project has been an important step on the way to ensure compliance with the environmental requirements, but it is also likely to generate ample profits if ash supply contracts are signed with companies using the by-product in the manufacture of building materials or as surface stabiliser in road construction. The entire volume of hazardous waste produced by the Company in 2013 (spent oils and lubricants) was handed over to MIS-Polska, and subsequently transferred to a refinery where the waste is used to manufacture new oil products. As regards neutralisation of hazardous waste (mercury-containing waste), in 2012 the Company's sewage system was cleaned, with the E3 and B4 electrolytic plants shut down, and mercury-containing wastewater treatment plant was decommissioned. The waste generated in the process was handed over for disposal. Plastic waste is recycled in the Compounding PA6 and Compounding POM units.

The Company also operates a selective waste collection programme (for waste paper, plastics, wood, glass, used batteries, and used electric and electronic equipment). With environmental concerns in mind, the Company has a clause incorporated in contracts with external providers of waste collection services and services involving generation of waste, whereunder the collected waste must be reused or neutralised in accordance with environmental protection laws and the waste act. The Company also works with Branżowa Organizacja Odzysku S.A. to meet the appropriate packaging waste recovery and recycling targets.

Emissions
The Company has implemented a range of environmental protection solutions, which help curb its air emissions. The air protection equipment reduces the amount of flue gases and dust discharged into the atmosphere. Also, emission volumes and pollutant concentration levels are measured at major emitters. Measurements are taken on a continuous basis (at the CHP plant and the dual-pressure nitric acid unit) or on a periodic basis at selected process emitters. Emission volumes and pollutant concentrations are measured in keeping with the applicable legal and administrative requirements. As the in-house CHP plant and chemical plants have participated in the emissions trading scheme since 2005 and 2013, respectively, the Company reviews its annual reports and obtains rights on an annual basis.

Joint Implementation Project
The Joint Implementation Project, launched in the second half of 2008, was successfully completed. The project was run in partnership with Japan's Mitsubishi Corporation following the signing of the Kyoto Protocol, with a view to reducing GHG emissions, including nitrous oxide produced by the KDC nitric acid unit. Over the project's duration, a total of 2,670,356 ERUs were generated, producing a revenue of PLN 107,759 thousand.

Due to its importance, the project was monitored and supervised by management staff and installation operators on an ongoing basis during the entire period. The generated ERUs were subject to repeated reviews by an external company, and the units were placed for trading only after a final report was approved, confirming the correct application of the required standards and methodologies.
The Company has been reducing emissions of nitrous oxide as a GHG since 2013, to the levels achieved during the Joint Implementation Project, in an effort to satisfy the BAT (Best Available Technique) criteria.

**Noise emissions**

As production processes tend to generate noise, the Company selects equipment with appropriate acoustic parameters for every new unit already at the design stage. Under relevant integrated permits, noise emissions, including noise at workstations and the noise emitted into the environment, must not exceed permitted levels. The Company monitors its noise emissions, and measures them in accordance with the requirements set out in the integrated permits. According to meter readings, the noise generated near the Company facilities does not exceed the permitted levels.

**4.9. Significant events**

**Issue of Series D shares**

The Company completed the issue of Series D shares, as announced in Current Report No. 87/2013 of May 6th 2013. Total issue costs were PLN 11,158 thousand, with the per share cost of PLN 0.32. The costs reduced share premium.

**Acquisition of shares in Grupa Azoty PULAWY**

For more information on settlement of the transaction, see the annual consolidated financial statements of the Grupa Azoty Group for the 12 months ended December 31st 2013, Note 1.2 Changes in the Group’s structure.

**Pledge on shares in Grupa Azoty PULAWY**

On March 25th 2013 the District Court for Kraków-Śródmieście in Kraków, 7th Commercial Division – Pledge Register, entered a registered pledge for the benefit of PKO BP S.A. on the Company’s 14,032,026 shares in Grupa Azoty PULAWY, acquired in January 2013. The maximum secured amount is PLN 1,066,500 thousand. On 26 April 2013, an agreement was executed establishing a pledge over 2,329,357 shares acquired through the subsequent tender offer of April 11th 2013. The shares represent 12.19% of Grupa Azoty PULAWY’s share capital. The relevant entry in the pledge register was made on May 17th 2013.

On September 5th 2013, an agreement was executed establishing a pledge over 16,269 shares acquired on May 22nd 2013 through a mandatory buy-out. The shares represent 0.085% of Grupa Azoty PULAWY’s share capital. The relevant entry in the pledge register was made on October 11th 2013.

The pledges were created as collateral under the credit facility agreement of August 14th 2012 executed between the Company, PKO BP S.A. and PZU Życie S.A.

**Amendments to the Company’s Articles of Association**

The Company’s Articles of Association were amended by the Extraordinary General Meeting held on March 15th 2013. On April 22nd 2013 the amendments were registered by the District Court for Kraków-Śródmieście of Kraków, 7th Commercial Division of the National Court Register.

The amendments, made by way of two EGM resolutions, changed the wording of Art. 47, whereby voting rights of the Company’s shareholders were limited. As long as the State Treasury of Poland or its subsidiaries hold shares in the Company carrying at least one fifth of the total voting rights, the other shareholders’ voting rights will be limited in such a manner that no shareholder may exercise more than one fifth of total voting rights at the General Meeting existing on the day of the General Meeting.

On April 17th 2013, the Company’s Annual General Meeting passed further resolutions amending the Articles of Association.

New provisions were added in Art. 5 expanding the scope of the Company’s business to include:

- computer programming, consultancy, and related activities (PKD 62),
- information service activities (PKD 63),
- repair of computers and communication equipment (PKD 95.1).
Art. 23.1 was also amended to read as follows: “1. The Company’s Management Board shall consist of no more than seven persons, including President, Vice-presidents and other Members. The number of Members of the Management Board shall be specified by the governing body which appoints the Management Board”.

The resolutions came into force as of their date, with effect from the date when the amendments were registered in the National Court Register (for details, see Current Reports Nos. 46/2013 of March 15th 2013, 54/2013 of March 27th 2013, 69/2013 of April 17th 2013, and 75/2013 of April 22nd 2013).

**Acquisition of Grupa Azoty SIARKOPOL**

On September 25th 2013, the Company and the State Treasury entered into a conditional agreement for sale of 4,675,000 shares (an 85% interest) in Grupa Azoty SIARKOPOL of Grzybów.

On October 30th 2013, following the necessary anti-trust proceedings, the Company obtained the decision of the President of the Office of Competition and Consumer Protection approving the concentration involving takeover of control of Grupa Azoty SIARKOPOL.

On November 21st 2013, the Company and the State Treasury signed a protocol confirming delivery of the global share certificate.

With the signing of the document, the final condition precedent specified in the agreement of September 25th 2013 was satisfied. The transaction price was PLN 320,003,750; the amount was transferred to the Ministry of State Treasury’s bank account on November 15th 2013. Approximately 25% of the aggregate share price was financed with Grupa Azoty’s own funds, with the balance sourced from a bank loan.

A social package, agreed upon and executed by the Company, the employees, and the Management Board of Grupa Azoty SIARKOPOL S.A., is an integral part of the share purchase agreement.

For more information on settlement of the transaction, see the annual consolidated financial statements of the Grupa Azoty Group for the 12 months ended December 31st 2013, Note 1.2 Changes in the Group’s structure.

**Strategy of the Grupa Azoty Group for 2013-2020**

On August 29th 2013, the Management Board presented the reviewed Strategy of the Grupa Azoty Group for 2013-2020, updated to reflect the opportunities offered by the consolidation with Grupa Azoty PUŁAWY. The strategy was reviewed as part of the ongoing consolidation processes. It presents a realistic vision of the Grupa Azoty Group’s growth and value creation in the coming years, and outlines the Group’s key strategic objectives in the main product areas with respect to innovations, operations, trading and financial policy.

The Strategy of the Grupa Azoty Group for 2013-2020 also outlines the corporate management objectives and methodology applied across the Group.

The document was published on August 29th 2013 in Current Report No. 115/2013.

**Grupa Azoty in the WIG 30 index**

On September 23rd 2013, the Warsaw Stock Exchange launched the WIG30 Index, which replaced the WIG20 Index. The new index covers the 30 largest and most liquid companies from 13 industries. The chemical industry is represented by two companies, including Grupa Azoty.

**Revenue from generation of ERUs**

As part of the joint implementation project, on March 4th 2013 the Ministry of Environment, acting on the basis of its previous decision, transferred entitlements from ERUs generated in the seventh measurement period (i.e. H2 2012) to Mitsubishi Corporation Japan.

On April 16th 2013, the Company received EUR 2,957 thousand from sale of the ERUs to the final buyer.

Proceeds from the sale of the ERUs had already been charged to profit or loss of the periods in which the ERUs were generated.

The Company completed the project.

**Verification of CO2 emissions**

An audit was carried out in early 2013 to verify the level of CO2 emissions in 2012. The audit confirmed the calculated emission levels. To fulfil the statutory obligation, the verified CO2 emission reports were sent to the National Administrator of the Emissions Trading System (KASHUE)
by March 30th 2013. Based on these reports, used emissions rights were redeemed by April 30th 2013. The Company settled the emissions using the statutory amounts of both EUA and CER units. The Company plans to carry out an audit in Q1 2014, to verify the 2013 CO₂ emission volumes and be able to redeem the rights based on the audit report within the statutory deadline of April 30th 2014.

In line with the adopted strategy, in 2013 the Company purchased reduction units required to settle the 2013 emissions.

Certificates of origin for electricity
In early 2013, an audit was conducted to verify the data contained in reports requesting issue of certificates of origin for co-generated energy produced in 2012, submitted to the President of the Energy Regulatory Office. The Company was allocated certificates in line with the data contained in its report.

On January 31st 2014, an audit was conducted to verify the data contained in the report requesting issue of certificates of origin for co-generated energy produced at the Company’s CHP plant in 2013, submitted to the President of the Energy Regulatory Office. On November 11th 2013, the Company filed an application for the allocation of certificates for ten months of 2013, followed by another application for the remaining two months, submitted on January 20th 2013. A report confirming the data contained in the filing for 2013 was submitted on February 12th 2014.

The Company expects to receive 228,603,936 proprietary rights for the certificates allocated for 2013.

Property and third-party liability insurance
On May 31st 2013, the Company and other Grupa Azoty Group companies (i.e. Grupa Azoty PULAWY, Grupa Azoty POLICE and Grupa Azoty ZAK S.A.) entered into an insurance broker agreement with a consortium of insurance brokers, comprising Nord Partner Sp. z o.o. and FST Management Sp. z o.o., valid until June 30th 2015. The aim of the agreement was to standardise the insurance policy and implement a consolidated insurance programme at the Group. Material insurance programmes, in particular regarding Company’s property insurance and third-party liability insurance, which expired on December 15th 2013, were renewed for a joint adjustment period until June 30th 2014.

Events after the end of the reporting period

Letter of intent with KGHM Polska Miedź S.A.
On January 16th 2014, the Management Boards of the Company and KGHM Polska Miedź S.A. of Lubin signed a letter of intent outlining general terms on which the parties may collaborate in the areas of phosphogypsum processing, acquisition of potassium salt deposits abroad, accessing natural gas reserves, construction of a polygeneration power plant, and phosphorite exploration and production.

The parties anticipate that their mutual relationship, which is treated as non-exclusive, may take one of the following forms:

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

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

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

5.1. Assessment of factors and non-typical events having a material impact on Grupa Azoty's operations and financial performance

**Impairment testing of the Polyoxymethylene (POM) Unit**

In connection with the deteriorating performance of cash-generating units in the Plastics segment, the Company identified impairment indicators. Growing imports of low-price POM from the Far East, aggressive pricing policies of the European manufacturers, and manufacturing cost increases caused by high prices of basic feedstock (including methanol) depressed margins earned by the POM CGU in the Plastics segment. The POM CGU includes production line assets used to manufacture products jointly marketed as Tarnoform®. POM is a high-quality engineering thermoplastic in granular form, used to manufacture goods through injection processing or extrusion. It is used in the automotive and home appliance industries, in electrical engineering, construction, furniture manufacture, and to produce machine parts, sports equipment, and clothing accessories. This one-off event affected the results presented in the separate financial statements of Grupa Azoty for 2013.

Impairment losses were charged to other expenses. A total impairment loss of PLN 46,069 thousand was allocated to property, plant and equipment (PLN 38,925 thousand, including PLN 3,630 thousand on buildings and structures, PLN 35,265 thousand on technical devices and machines, and PLN 20 thousand on other assets) and to intangible assets (PLN 7,144 thousand, mostly licenses).

**Stronger competition in the domestic and foreign markets**

The progressing consolidation of the fertilizer distribution market in Poland, which increases supply of fertilizers produced with cheap gas originating from countries neighbouring the EU, and the growing manufacturing capacities in the sector have led to intensified competition in the fertilizer markets. One of the factors with a bearing on the Company's competitive position on the domestic market is the liberalization of trade in the European Union.

The Polish market is protected by import duties. The lifting of customs duties on Ukrainian nitrate as of July 2012 will further intensify competition in this product segment. The European Commission has begun an analysis of consequences of expiry of the anti-dumping duties on Russian nitrate. The duties, which were to expire on July 13th 2013, will remain effective at least until the end of the Commission's proceedings, which may continue for up to 15 months. After completion of the review, the Commission will propose that the duties are either maintained for another five years, or be lifted.

The expansion of caprolactam production capacities in Asia, mainly in China, subsequent to 2012 has depressed prices of the product; the situation further deteriorated following a temporary decline in demand for polyamides (produced from caprolactam) on the back of the general economic situation worldwide.

Oversupply of ammonium sulfate (a by-product of caprolactam production), caused by the larger output of caprolactam on globally, may lead to price erosion.

All of these factors may have a significant bearing on the Company's ability to achieve its business objectives in the next financial period.

**Volatility of exchange rates**

In the first half of 2013, the Company's financial performance was affected by the economic crisis in the Mediterranean countries and the increased volatility of the EUR/USD exchange rate (which was directly reflected in volatility of the USD/PLN and EUR/PLN rates); and then, in the second half of the year - by the improving economic outlook for Poland and the eurozone, which helped stabilise and strengthen the Polish currency versus EUR and USD.

During the entire 2013, PLN strengthened by approximately 2.8% versus USD and weakened by about 1.4% versus EUR over December 31st 2012. The average USD/PLN exchange rate in 2013 was approximately 3.0% lower year on year, while the average EUR/PLN exchange rate was up by about 0.3% on 2012. For the entire 2013, the effect of appreciation of the Polish złoty versus USD was for the major part offset by the currency's depreciation of PLN versus EUR. All in all, the currency movements had no material bearing on the Company's performance given its positive net currency exposure in EUR and, to a lesser extent, USD (foreign-currency denominated inflows were higher than outflows).
Based on the Market Risk Management Policy under the 2013 Plan and in accordance with the internal guidelines of the Foreign Exchange Risk Committee, in 2013 the Company hedged up to 50% of its planned currency exposure under executed contracts, in a time horizon of up to six months from the hedge contract conclusion date.

In 2013, the Company’s hedging tools were EUR swap forwards, and to a lesser extent, USD swap forwards, reflecting its planned net exposure in both currencies.

5.2. Market overview

Agro Fertilizers

Agricultural market

The economic situation on the agricultural market in 2013 followed the patterns seen in 2012. The average synthetic business index for agriculture was 100.3pp, only 0.1pp below its 2012 value.

Developments in farm-gate prices and prices of means of agricultural production were favourable for farmers. This is confirmed by the average equalised price differential index, which went up by 0.5pp on 2012, mainly due to the stable prices of means of agricultural production.

This, however, did not lead to any increase in demand for means of production, as reflected in the lower average equalised potential demand index. It was clearly seen towards the end of the year, when the market for means of agricultural production was slowing, with sales of mineral fertilizers, pesticides and capital goods declining. 2013 saw a significant drop in profitability of applying yield drivers (particularly mineral fertilizers), which adversely affected their sales, despite the lower prices.

On the grain market, prices fell significantly year on year, but they were higher than expected by the poultry and pig producers. In a longer run, this will render it more difficult to restore the number of pigs and increase pork production in 2014.

In 2013 there was a clear year-on-year drop in the average food production index, which however improved in September to reach the year’s high. Analysts expect the economic situation in agriculture in 2014 to benefit from direct subsidies to be paid out in spring, disbursement of funds under the new Rural Development Programme (PROW) for 2014−2020 and a stronger increase in grain prices.

Oil seed rape, wheat, rye and corn prices

![Oil seed rape, wheat, rye and corn prices](image)

Source: Ministry of Agriculture and Rural Development

Fertilizer market

In 2013, the fertilizer market was affected by the poorer financial standing of agricultural producers, caused by declining produce prices in the first half of the year, followed by a slight improvement later in the year. The price decreases were attributable to high grain harvest
forecasts both in the European Union and globally. High nitrate fertilizer prices, the producers’ decision to postpone fertilizer purchases in anticipation of price reductions, and adverse weather conditions were the main factors behind the depressed demand for nitrate fertilizers in both Poland and western Europe. The supply in the period was adjusted to reflect the actual demand. The situation improved markedly, particularly in western Europe, only in Q4 2013, when nitrate fertilizer producers (including Grupa Azoty) announced several substantial price reductions. Prices of nitrate fertilizers in 2013 were also affected by the situation on the global urea market. Given the adverse changes in the EUR/PLN exchange rate in 2013, imports of nitrate fertilizers from the EU remained low and, relative to the previous year, had no material effect on the situation in the agricultural sector. A factor expected to alleviate the situation is the amount of direct subsidies estimated at PLN 14.91bn; this should enable Poland’s agricultural sector to regain high purchasing power.

In early 2013 (January–April) retail prices of nitrate fertilizers on the domestic market firmed on stronger demand for fertilizers ahead of the spring application season. In May and June the prices of nitrate fertilizers remained flat. The harvest season, started in July, went smoothly owing to favourable weather conditions. But it was a dead season for fertilizer application. Low farm-gate prices of rape seed and grains seen in August did not help lift the sentiment among producers of means of agricultural production, including fertilizer manufacturers. As a result, the domestic market, and especially its nitrate fertilizer segment, responded with slight price reductions.

**CAN, AN and AS prices**

**Ammonium nitrate/calcium ammonium nitrate (CAN)**

In 2013, prices of both calcium ammonium nitrate and ammonium nitrate fell year on year; the average annual price of calcium ammonium nitrate was down from EUR 263/t in 2012 to EUR 242/t in 2013, while the average annual price of ammonium nitrate decreased from EUR 343/t in 2012 to EUR 313/t. The prices followed the decrease in urea prices on global markets.

**Ammonium sulfate**

Prices of ammonium sulfate went down year on year in 2013; the average annual price decreased from USD 210/t in 2012 to USD 161/t in 3013. The price drops reflected the decrease in urea prices on global markets and the large supply of sulfate, mainly from China. Also, the higher sulfate production capacities, for instance in Germany (DOMO Leuna) and Spain (UBE), accompanied by the increasingly popular coarse-grained sulfate manufactured by compacting in Lithuania and Turkey, contributed to sustained low prices of ammonium sulfate across Europe. On European markets, end users continued to wait for further price reductions, which adversely affected the demand.
Saletrosan® (ammonium sulfate nitrate, ASN)
Also prices of ammonium sulfate nitrate decreased year on year. The decrease was correlated with the decline of CAN prices.

Ammonia and urea prices

![Graph showing Ammonia and Urea prices](image)

Sources: ICIS, FMB.

**Urea**
Most of 2013 saw extended decline of urea prices, attributable mainly to speculative attitudes of key global consumers seeking to artificially suppress demand (by postponing urea purchases) and to cause further price decrease. The main driver of urea prices, especially in Q3 2013, was the temporary lifting of customs duties on urea imports from China effective at that time. The estimated significant oversupply of urea, accompanied by China’s large forecast urea export potential, was not conducive to any price increases. The situation did not improve until Q4 2013. The continuing low supply and the concurrent increase in demand for urea helped the prices to firm, a change reflected in market quotations. Increase in urea supply was held back mainly by East-European producers’ decisions to postpone start-up of their production facilities after shutdowns, and by the limited urea supplies from North Africa.

**Ammonia**
In 2013, ammonia prices on the global markets were principally affected by flagging demand, caused chiefly by reduced ammonia purchases by fertilizer manufacturers. Significant reduction of ammonia output by a number of exporters, including Ukraine, Trinidad, Algieria, Egypt, Libya and Qatar, did not avert price decline. Ammonia FOB Yuzhny Black Sea price was down from ca. USD 600/t in January 2013 to USD 420/t in December 2013.
Prices of NPK, DAP, potassium salt and phosphate rock

Prices of caprolactam, PA6, benzene and phenol

Sources: FMB, FERTECON

Plastics

Prices of caprolactam, PA6, benzene and phenol

Source: TECNON, ICIS

Benzene

The market in 2013 was unstable, with periodic shifts in supply and demand and speculative transactions. The average annual contract price of FOB NWE benzene quoted by ICIS in 2013 was EUR 998/tonne, up 2% year on year. Benzene prices on the European market depend on market segments using the chemical for purposes other than caprolactam production (chiefly as a fuel additive or by the styrene industry). This has adverse consequences for caprolactam manufacturers, as they are forced to accept commodity prices which are out of step with the conditions prevalent in the plastics sector.
Benzene prices are driven by oil prices and the market balance. Given the switchover to manufacture of light fractions, benzene production capacity continues to gradually decrease in Europe and the US, whereas the replacement of carbochemical units in China leads to discontinuation of production of benzene fractions. The geographical distribution of refining capacities is changing, with new units opening close to feedstock sources. European refineries are becoming less competitive. At the same time, the unstable supply and demand situation and speculative translations drive feedstock prices up.

**Phenol**

The benzene market and price forecasts have a strong impact on the phenol market, making it highly volatile and unstable. In 2013, the average annual contract prices of phenol improved slightly on 2012, having increased by 1%, to EUR 1,582/tonne (FD NWE ICIS). The European market continued to be affected by oversupply, with the largest European manufacturers forced to temporarily reduce their phenol output due to weaker demand for key phenol-based products. This slowdown affected the end markets for phenol-based products. The buyers and manufacturers estimate that in 2014 demand for phenol on the European market will remain unchanged. The benzene pricing formula continues to rely chiefly on contract prices, but this correlation may discontinue in case of suppressed demand for phenol-based products.

**Caprolactam**

The caprolactam market depends heavily on demand for polyamide and cost of raw materials pegged to crude prices. In 2013, caprolactam prices were driven by volatile benzene prices and the growing production capacities in China, which led to oversupply and lower demand for the feedstock. The average annual contract price of liquid caprolactam in 2013 was EUR 1,886/tonne (DDP WE Tecnon), down 9% year on year. Polyamide fibre production accounts for 68% of caprolactam consumption, with the remaining 32% used to manufacture engineering plastics. According to estimates, the demand for engineering-grade polyamide 6 will grow at an average annual rate of 2% until 2016, while the demand for textile polyamide 6 will continue to drop over the same period at an average annual rate of 2.5%.

**Polyamide 6**

The European plastics industry stabilised in 2013. Construction of new production units in Asia puts the polyamide 6 market under significant stress, as it may lead to lower exports to the region, paired with higher imports of Asian-made polyamide 6 to Europe. In 2013, the average annual contract price of polyamide 6 was EUR 2,000/tonne (Engineering Resin, Virgin, DDP, TECNON), having decreased by 9.5% on 2012. A slight recovery is expected in 2014, with IHS projecting that the demand for polyamide 6 will increase globally by 3.5% in 2012-2018.

**Other Activities**

**Sulfur prices**

Source: FERTECON, Profercy
Sulfur
In 2013, the average annual sulfur price was USD 155/tonne, down 26% year on year (NWE refinery Fertecon). The decline was attributable chiefly to the situation on the fertilizer market (lower demand), the increased supply of petrochemical sulfur, as well as limited output of phosphate fertilizers. The market situation was stable throughout 2013, but even though the downward trend, especially visible outside Europe, had been halted by the end of the year, the drop in prices had been significant. Market conditions in subsequent periods will largely depend on the situation on the fertilizer market, particularly in the compound fertilizers segment.

Electricity
The decline of electricity prices stopped in 2013. The Group companies use tender procedures and supplementary purchases on the spot market to minimise electricity costs. Electricity prices depend on prices of coal and CO\textsubscript{2} emission rights, as well as cross-border transmission capacities and demand. Polish power producers, consultancies and financial institutions forecast that energy prices would increase in 2013. Contrary to their predictions, the prices decreased significantly.

The monthly BASE rate, measured as the volume-weighted average of all transactions concluded on the Day-Ahead Market in November 2013, was PLN 150.32/MWh, down PLN 6.21 month on month. The monthly PEAK rate, measured as the volume-weighted average of all transactions concluded on the Day-Ahead Market between 8 am and 10 pm, was PLN 164.31/MWh, down PLN 5.55 month on month. The average volume-weighted price for BASE\_Y-14 contracts was PLN 151.31/MWh, down PLN 2.47 month on month.

On July 15th 2013, the price for BASE\_Y-14 contracts was PLN 145.35/MWh for 525,600 MWh, the lowest since the contract had been launched on the Commodity Forward Instruments Market. In November 2013, the average price was PLN 155.48/MWh.

Prices and transmission charges are set in the PSE Operator S.A. Electricity Tariff approved by the President of the Energy Regulatory Office for a given calendar year.

According to the DM Consus forecast of December 2nd 2013, the average price of EUA rights in 2014 and 2015 will be EUR 5.70 and 6.96, respectively. The average price in 2015-2020 is expected to reach EUR 6.64.

Coal
In 2013, the average ARA coal price was USD 80.50/tonne, substantially below analysts’ previous consensus, having dropped from USD 92.50/tonne in 2012. Analysts expect coal prices to increase slightly in 2014, to USD 82.50/tonne. The coal market is expected to pick up chiefly on the back of global economic recovery and the resultant rise in demand for energy.

Coal prices fell mostly due to the persistent oversupply which continued throughout the reporting period. This problem was especially visible in the Atlantic region, where vast coal supplies added to price pressures. The market was flooded with coal from traditional suppliers, as well as from the United States, which became a net exporter of coal following the “shale gas revolution”. The slight increase in prices at the end of 2013 was mostly attributable to the start of the heating season and higher coal consumption by CHP plants in the Northern Hemisphere. Nonetheless, coal mines continue to look for savings by reducing costs or abandoning production from deposits which are difficult to reach, as the demand is not expected to recover in the short-term horizon. China, until recently the largest coal importer, significantly reduced both costs of domestic production and purchases made on international markets.

Natural gas
PGNiG continued to be Grupa Azoty’s key natural gas supplier in 2013. In 2013, the gas supplies were diversified, and the market situation enabled the Company to buy gas from local sources and from Western Europe.

The changing market conditions, such as new regulations and efforts to foster competition on the gas market, determine the Company’s procurement policies. Such key changes include:

- exemption from the obligation to submit wholesale gas tariffs for approval,
- introduction of the requirement to sell a portion of the gas on the exchange, under the Act Amending the Energy Law and Certain Other Acts,
- development of the gas market on the Polish Power Exchange,
- adoption of the time frame for exemption from the tariff obligation for individual groups of...
commercial customers,

- capacity auctions at interconnectors.

These factors may affect the Company’s ability to engage new suppliers, reduce the share of gas delivered by the main supplier, PGNiG, and change supply management methods. In the future, they may affect the host contract and the settlement formulas.

5.3. Key financial and economic data

5.2.1. Company's financial performance

In 2013, the Company posted a positive EBITDA of PLN 10,297 thousand and net profit of PLN 44,117 thousand. Year on year, these figures were down by PLN 197,918 thousand and PLN 206,575 thousand, respectively.

The table below compares the key items on the statement of profit and loss for 2013 and 2012.

<table>
<thead>
<tr>
<th>Item</th>
<th>2013</th>
<th>2012</th>
<th>change</th>
<th>% change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue</td>
<td>1,846,127</td>
<td>1,996,173</td>
<td>(150,046)</td>
<td>(7.5)</td>
</tr>
<tr>
<td>Cost of sales</td>
<td>(1,654,524)</td>
<td>(1,634,916)</td>
<td>(19,608)</td>
<td>1.2</td>
</tr>
<tr>
<td>Gross profit</td>
<td>191,603</td>
<td>361,257</td>
<td>(169,654)</td>
<td>(47.0)</td>
</tr>
<tr>
<td>Selling and distribution expenses</td>
<td>(60,583)</td>
<td>(63,989)</td>
<td>3,406</td>
<td>(5.3)</td>
</tr>
<tr>
<td>Administrative expenses</td>
<td>(149,122)</td>
<td>(147,731)</td>
<td>(1,391)</td>
<td>0.9</td>
</tr>
<tr>
<td>Profit/(loss) from sales</td>
<td>(18,102)</td>
<td>149,537</td>
<td>(167,639)</td>
<td>(112.1)</td>
</tr>
<tr>
<td>Other income/(expenses)</td>
<td>(60,884)</td>
<td>(16,020)</td>
<td>(44,864)</td>
<td>280.0</td>
</tr>
<tr>
<td>Operating profit/(loss) (EBIT)</td>
<td>(78,986)</td>
<td>133,517</td>
<td>(212,503)</td>
<td>(159.2)</td>
</tr>
<tr>
<td>Finance income/(costs)</td>
<td>103,760</td>
<td>142,626</td>
<td>(38,866)</td>
<td>(27.3)</td>
</tr>
<tr>
<td>Profit before tax</td>
<td>24,774</td>
<td>276,143</td>
<td>(251,369)</td>
<td>(91.0)</td>
</tr>
<tr>
<td>Income tax</td>
<td>19,343</td>
<td>(25,451)</td>
<td>44,794</td>
<td>(176.0)</td>
</tr>
<tr>
<td>Net profit/(loss)</td>
<td>44,117</td>
<td>250,692</td>
<td>(206,575)</td>
<td>(82.4)</td>
</tr>
<tr>
<td>EBIT</td>
<td>(78,986)</td>
<td>133,517</td>
<td>(212,503)</td>
<td>(159.2)</td>
</tr>
<tr>
<td>Depreciation</td>
<td>(89,283)</td>
<td>(74,698)</td>
<td>(14,585)</td>
<td>19.5</td>
</tr>
<tr>
<td>EBITDA</td>
<td>10,297</td>
<td>208,215</td>
<td>(197,918)</td>
<td>(95.1)</td>
</tr>
</tbody>
</table>

Source: Company data

The decline in revenue was attributable to a lower sales in the Agro Fertilizers and Plastics segments. The Other Activities segment recorded a year-on-year improvement in revenue of 63.1%. Although cost of sales grew faster than revenue, the Company posted a profit on sales and, as a consequence, earned a net profit of PLN 44,117 thousand for the year.

The cost increase was due primarily to a rise in depreciation and amortisation charges, raw materials and consumables used, and services.

In 2013, the Company posted a PLN 60,884 thousand loss on other operating activities. Relative to 2012, the loss increased by a further PLN 44,864 thousand, caused mainly by impairment losses on property, plant and equipment, and failure recovery costs.

There was a slight year-on-year drop in finance income, to PLN 38,866 thousand. The key items were dividends received and valuation of financial assets, as well as a foreign exchange gain. There was also a year-on-year decrease in interest income, with a concurrent rise in interest expense on borrowings.
5.2.2. Segment results

EBIT by segment

<table>
<thead>
<tr>
<th>Segment</th>
<th>Revenue</th>
<th>Share [%]</th>
<th>Net profit on sales</th>
<th>EBIT</th>
</tr>
</thead>
<tbody>
<tr>
<td>Agro Fertilizers</td>
<td>805,085</td>
<td>43.6</td>
<td>29,760</td>
<td>29,726</td>
</tr>
<tr>
<td>Plastics</td>
<td>957,867</td>
<td>51.9</td>
<td>(57,986)</td>
<td>(62,622)</td>
</tr>
<tr>
<td>Energy</td>
<td>53,857</td>
<td>2.9</td>
<td>6,917</td>
<td>3,072</td>
</tr>
<tr>
<td>Other</td>
<td>29,318</td>
<td>1.6</td>
<td>3,207</td>
<td>(3,094)</td>
</tr>
</tbody>
</table>

Source: Company data

Sales of the Company’s products are determined primarily by market conditions in the Agro Fertilizers and Plastics segments. In 2013, revenue posted by the Fertilizers segment was PLN 805,085 thousand, down 9.4% on the year before, while revenue in the Plastics segment amounted to PLN 957,867 thousand, down 9.3% year on year. The highest profit on sales, also reflected in the level of operating profit, was earned by the Agro Fertilizers segment. The revenue generated by the new Energy segment, which was previously disclosed under Other Activities, increased nearly threefold on the previous year (2012: PLN 16,166 thousand).

Revenue by segment

Source: Company data

**Agro Fertilizers**

In 2013, revenue in the Agro Fertilizers segment was PLN 805,085 thousand and accounted for 43.6% of the Company’s total revenue. The revenue fell year on year on a lower volume of sales. Another contributory factor was a reduction in prices of nitrogen fertilizers, necessitated by weaker demand. Most of the revenue was derived from the domestic market, where sales are over 50% higher than exports.
Plastics
In 2013, revenue in the Plastics segment was PLN 957,867 thousand and accounted for 51.9% of the Company's total revenue. The revenue went down year on year. Most of the revenue in the Plastics segment was derived from exports.

Energy
In 2012, the Energy segment, which was previously part of Other Activities, reported revenue of PLN 16,166 thousand, accounting for 0.9% of the total revenue. This share increased to 2.9% in 2013; for the year, the segment generated a net profit on sales of PLN 6,917.

Other Activities
Revenue in the Other Activities segment in 2013 was PLN 29,318 thousand, down approximately 15.8% on the year before.

Sales by product group

Source: Company data

The key items in Company sales are plastics and intermediates (48.2%), followed by fertilizers (39.6%). Base chemicals recorded the highest growth in revenue on 2012. Revenue from sales in this product group increased by nearly 36.8%. In other product groups, revenue slightly fell relative to 2012.
The Company's sales structure changed in comparison with 2012. The share of nitrogen fertilizers fell by 0.5 pp, and of other products - by 2.2 pp. The share of plastics increased by 1.3 pp, and of base chemicals - by 1.4 pp. However, the changes were not significant, and the product structure was similar in the comparative periods.

5.2.3. Operating expenses

In 2013, operating expenses came in at PLN 1,838,334 thousand, up by PLN 6,833 thousand year on year. Raw materials and consumables used (the largest cost item) fell PLN 17,412 thousand, depreciation/amortisation charges were up 19.5%, and taxes and charges increased 9.1%. Other expenses were down, as were raw materials and consumables used (by 1.4%).

<table>
<thead>
<tr>
<th>Operating expenses</th>
<th>2013</th>
<th>2012</th>
<th>change</th>
<th>% change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Depreciation and amortisation</td>
<td>89,283</td>
<td>74,698</td>
<td>14,585</td>
<td>19.5</td>
</tr>
<tr>
<td>Raw materials and consumables used</td>
<td>1,235,466</td>
<td>1,252,878</td>
<td>(17,412)</td>
<td>(1.4)</td>
</tr>
<tr>
<td>Services</td>
<td>280,990</td>
<td>281,436</td>
<td>(446)</td>
<td>(0.2)</td>
</tr>
<tr>
<td>Salaries and wages, including overheads, and other benefits</td>
<td>163,028</td>
<td>155,363</td>
<td>7,665</td>
<td>4.9</td>
</tr>
<tr>
<td>Taxes and charges</td>
<td>42,513</td>
<td>38,978</td>
<td>3,535</td>
<td>9.1</td>
</tr>
<tr>
<td>Other expenses</td>
<td>27,054</td>
<td>28,148</td>
<td>(1,094)</td>
<td>(3.9)</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>1,838,334</td>
<td>1,831,501</td>
<td>6,833</td>
<td>0.4</td>
</tr>
</tbody>
</table>

Source: Company data
Raw materials and consumables used were the largest component of operating expenses in 2013. Compared with 2012, their share fell slightly, while the share of depreciation/amortisation increased. A small increase was seen in salaries and wages, including overheads, and other expenses.

5.2.4. Structure of assets, equity and liabilities

In 2013, the Company's assets rose to PLN 5,375,806 thousand, i.e. by 83.7% over the previous year. As at the end of 2013, non-current assets were PLN 4,883,941 thousand, and current assets stood at PLN 491,865 thousand.

The most significant changes in assets in 2013 included:
- a 109.2% increase in non-current assets,
- a 283.9% increase in investments in subordinated entities,
- a 16.8% decrease in current assets,
- a 90.5% decrease in cash and cash equivalents,
- a 272.7% increase in current tax assets.
The profitability ratios deteriorated in 2013. Gross margin fell by 7.7 pp. The decrease is attributable to a 7.5% decline of revenue, accompanied by a more significant fall of gross profit by 47.0%. Negative EBIT was caused by the operating loss recorded by the Company. The loss also had an adverse effect on EBITDA, which retreated by 9.8 pp on 2012. The EBIT margin was down on lower profit on sales and higher operating expenses. During the reporting period, the return on capital employed turned negative on the back of negative EBIT. Net margin fell following as net
profit dynamics were stronger than the dynamics of revenue. Given the value of net profit, the other ratios are close to zero.

**Profitability ratios**

<table>
<thead>
<tr>
<th></th>
<th>2013</th>
<th>2012 restated</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gross margin</td>
<td>10.4%</td>
<td>18.1%</td>
</tr>
<tr>
<td>EBIT margin</td>
<td>(4.3)%</td>
<td>6.7%</td>
</tr>
<tr>
<td>EBITDA margin</td>
<td>0.6%</td>
<td>10.4%</td>
</tr>
<tr>
<td>Net margin</td>
<td>2.4%</td>
<td>12.6%</td>
</tr>
<tr>
<td>Return on assets</td>
<td>0.8%</td>
<td>8.6%</td>
</tr>
<tr>
<td>Return on capital employed</td>
<td>(1.7)%</td>
<td>5.3%</td>
</tr>
<tr>
<td>ROE</td>
<td>1.1%</td>
<td>11.3%</td>
</tr>
<tr>
<td>Return on non-current assets</td>
<td>0.9%</td>
<td>10.7%</td>
</tr>
</tbody>
</table>

Source: Company data

**Ratio formulas:**

Gross margin = gross profit (loss) on sales / revenue (statement of comprehensive income in multiple-step format)

EBIT margin = EBIT / revenue

EBITDA margin = EBITDA / revenue from sales

Net profit margin = net profit (loss) / revenue from sales

Return on assets = net profit (loss) / total assets

Return on capital employed (ROCE) = EBIT / total assets less current liabilities (TALCL), that is EBIT / total assets less current liabilities

Return on equity = net profit (loss) / equity

Return on non-current assets = net profit (loss) / non-current assets

**Liquidity**

As at the end of 2013, the Company’s liquidity ratios were lower year on year, which was attributable to higher current liabilities under borrowings.

**Liquidity ratios**

<table>
<thead>
<tr>
<th></th>
<th>2013</th>
<th>2012 restated</th>
</tr>
</thead>
<tbody>
<tr>
<td>Current ratio</td>
<td>0.6</td>
<td>1.4</td>
</tr>
<tr>
<td>Quick ratio</td>
<td>0.3</td>
<td>0.8</td>
</tr>
<tr>
<td>Cash ratio</td>
<td>0.0</td>
<td>0.2</td>
</tr>
</tbody>
</table>

Source: Company data

**Ratio formulas:**

Current ratio = current assets / current liabilities

Quick ratio = (current assets - inventory - current accruals) / current liabilities

Cash ratio = (cash and cash equivalents + other financial assets) / current liabilities

As a result of the changes in current assets and liabilities, as at December 31st 2013 working capital was negative at PLN (282,893) thousand.
Changes in working capital

<table>
<thead>
<tr>
<th>Date</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Dec 31 2011</td>
<td>101,952</td>
</tr>
<tr>
<td>Mar 31 2012</td>
<td>180,140</td>
</tr>
<tr>
<td>Jun 30 2012</td>
<td>305,042</td>
</tr>
<tr>
<td>Sep 30 2012</td>
<td>214,130</td>
</tr>
<tr>
<td>Dec 31 2012</td>
<td>180,016</td>
</tr>
<tr>
<td>Mar 31 2013</td>
<td>180,378</td>
</tr>
<tr>
<td>Jun 30 2013</td>
<td>-1,702</td>
</tr>
<tr>
<td>Sep 30 2013</td>
<td>-46,967</td>
</tr>
<tr>
<td>Dec 31 2013</td>
<td>-282,893</td>
</tr>
</tbody>
</table>

Source: Company data

Operating efficiency

The shortening of the inventory turnover period was caused by decrease in inventories. The average collection period extended slightly, to 49 days. The average payment period remained unchanged mainly due to little change of liabilities in relation to cost of sales (mainly prices of raw materials). This contributed to the cash conversion cycle setting at 45 days, which is favourable for the Company.

Operating efficiency ratios

<table>
<thead>
<tr>
<th></th>
<th>2013</th>
<th>2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>Inventory turnover</td>
<td>52</td>
<td>58</td>
</tr>
<tr>
<td>Average collection period</td>
<td>49</td>
<td>48</td>
</tr>
<tr>
<td>Average payment period</td>
<td>56</td>
<td>56</td>
</tr>
<tr>
<td>Cash conversion cycle</td>
<td>45</td>
<td>50</td>
</tr>
</tbody>
</table>

Source: Company data

Ratio formulas:
- Inventory turnover = inventory * 360 / cost of sales
- Average collection period = trade and other receivables * 360 / revenue
- Average payment period = trade and other payables * 360 / cost of sales
- Cash conversion cycle = inventory turnover + average collection period - average payment period

Debt

During the reporting period the main source of financing the Company’s assets and operations was equity. Stable leverage was maintained throughout the period, which was financially effective and safe in terms of financing risk. The interest cover ratio fell significantly, but the Company maintains its ability to pay interest when due.
Debt ratios

<table>
<thead>
<tr>
<th>Ratio</th>
<th>2013</th>
<th>2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total debt ratio</td>
<td>25.9%</td>
<td>24.3%</td>
</tr>
<tr>
<td>Long-term debt ratio</td>
<td>11.5%</td>
<td>10.2%</td>
</tr>
<tr>
<td>Short-term debt ratio</td>
<td>14.4%</td>
<td>14.0%</td>
</tr>
<tr>
<td>Equity-to-debt ratio</td>
<td>286.2%</td>
<td>311.7%</td>
</tr>
<tr>
<td>Interest cover ratio</td>
<td>183.1%</td>
<td>2,136.0%</td>
</tr>
</tbody>
</table>

Source: Company data

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

5.5. Explanation of differences between actual performance and financial forecasts for 2013

The Company did not publish any forecasts for 2013.

5.6. Management of capital and assets

In 2013, the Company successfully financed all of its key consolidation, acquisition and investment projects, using mainly free operating cash flows and the disbursed long-term investment loans incurred by the Company to finance equity investments (acquisition of shares in Grupa Azoty PUŁAWY and Grupa Azoty SIARKOPOL) and investments in asset (construction of hydrogen facility and upgrade of sulfuric acid facility), and additionally using special-purpose loans obtained from its subsidiaries (Grupa Azoty ZAK and Grupa Azoty SIARKOPOL).

During the year, the Company increased its borrowings from PLN 216,215 thousand to PLN 916,710 thousand.

As at December 31st 2013, the Company held free cash PLN 6,349 thousand. Taking into account the resolution of the Annual General Meeting of Grupa Azoty PUŁAWY to pay dividend on January 17th 2014 (PLN 190,429 thousand dividend payable and actually paid to Grupa Azoty on that date), the Company’s liquidity risk is low. Also, the Company has access to overdraft and multi-purpose credit facilities and special-purpose loans (PLN 37,211 thousand as at December 31st 2013), which further limits the liquidity risk.

As at December 31st 2013, the Company did not carry any overdue liabilities, nor was it default on other terms of its liabilities which could otherwise result in accelerated payment of such liabilities. In 2013, the Company was not refused any bank borrowings and none of its bank borrowings was terminated.

In the view of its strategic lenders the Company has a sound liquidity position and enjoys high credit standing. Considering the above, even if a potential economic slowdown occurs, the Company believes that there would be no threat or risk which could lead to a material decline in its standing or to loss of liquidity.

Furthermore, as the consolidation process progressed, objectives of the financing strategy were effectively achieved, including:

- uniform financing terms for all companies of the Grupa Azoty Group were secured and further improved, reflecting the Group’s credit standing and capacity,
- strong liquidity position of the Grupa Azoty Group was maintained, with the management of free cash at the Group companies optimised.

These objectives were achieved through the following measures:

- management of cash pooling and overdraft sub-limits available to the Grupa Azoty Group within a global limit provided by PKO BP S.A., with flexible adjustment of the instruments to the needs of the Group companies,
negotiation and standardisation of terms of credit limits and other bank financing instruments (leasing, factoring) for all companies of the Grupa Azoty Group, reflecting the Group’s credit standing and capacity,

- maintaining by the Group of a high balance of free cash to secure funding for its asset and equity investments, and access to sufficient cash pools in the event of cycle-related changes in working capital needs,

- the Company’s approach to shaping its subsidiaries’ dividend policies, adapted to the financing requirements of Grupa Azoty and its subsidiaries’ investment strategy.

5.7. Feasibility of planned investments, including equity investments, in view of available funding and possible changes in financing structure

In 2013, the Company’s capital expenditure totalled PLN 134,920 thousand, of which PLN 103,451 thousand was financed with own funds (including PLN 7,769 thousand raised through the Public Offering), PLN 31,111 thousand from investment facilities, and PLN 358 thousand from grants.

Also in 2013, to finance the PLN 311,030 thousand acquisition of 12.27% of shares in Grupa Azoty PULAWY and the PLN 320,004 thousand acquisition of 85% of shares in Grupa Azoty SIARKOPOL, the Company used PLN 82,409 thousand of the Group’s own funds and a total of PLN 548,625 thousand in amounts drawn under a long-term credit facility (the joint financing agreement).

The Company is able to finance its investment plans using either current or expected free operating cash flows (EBITDA), dividends from the Group companies planned in 2014, or new investment credit facilities and other borrowings.

Maximum acceptable levels of financial ratios agreed upon with the strategic lenders allow for further increase in external funding, without the risk of breaching covenants under the existing credit facility agreements.

5.8. Credit facility and loan agreements executed or terminated during the financial year

In 2013, none of the Company’s credit facility agreements, loan agreements or other borrowing agreements were terminated.

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

Annexes to joint financing agreement with PKO Bank Polski S.A. and PZU Życie S.A.

On February 15th 2013, the Company executed a second agreement amending the PLN 711,000 thousand credit facility agreement in the form of the consolidated Joint financing agreement for the period until December 31st 2017, the purpose of which was to:

- set the total maximum amount of borrowings under the joint financing agreement at PLN 710,992 thousand,

- amend tranches B and B1 (from PLN 211,000 thousand to PLN 423,625 thousand in total) and guarantee B2 (from PLN 211,000 thousand to PLN 423,625 thousand), to be used as security and subsequently as financing for the acquisition of Grupa Azoty PULAWY shares by the Company following the Subsequent Tender Offer for Grupa Azoty PULAWY shares,

- establish tranches C and C1 (up to a combined maximum of PLN 256,000 thousand, however no more than PLN 125,000 thousand plus unused amount of tranches B and B1), to be used as financing for the acquisition of Grupa Azoty SIARKOPOL shares by the Company from the State Treasury,

- match the security established under the joint financing agreement to the adjusted tranches, without changing the previously agreed set of security instruments.

In the performance of its obligation to establish the security, the Company created financial and registered pledges over the purchased Grupa Azoty PULAWY shares (see Section 4.10 Significant Events).

On June 27th 2013, the Company entered into a third agreement with PKO Bank Polski S.A. and PZU Życie S.A. amending the credit facility agreement. The purpose of the third amending agreement was to extend, from June 30th 2013 to September 30th 2013, the final drawdown deadlines for tranches C and C1, totalling PLN 239,752 thousand, earmarked for partial financing of the acquisition of 85% of Grupa Azoty SIARKOPOL shares; and to amend the repayment schedule (from
19 equal quarterly payments starting on June 30th 2013 to 18 equal quarterly payments starting on September 30th 2013.

On September 23rd 2013, the Company entered into the fourth agreement amending the credit facility agreement. The purpose of the fourth amending agreement was to extend the final drawdown deadlines for tranches C and C1, from September 30th 2013 to October 31st 2013, and amend the tranches' repayment schedule (from 18 equal quarterly payments starting on September 30th 2013 to 17 equal quarterly payments starting on December 31st 2013).

On December 20th 2013, the Company executed the fifth agreement amending the credit facility agreement. The purpose of the fifth amending agreement was to optimise the financial terms of the credit facility by reducing the lenders' margins over 1M WIBOR and agree on the terms of future financing for the Company.

Other material terms of the joint financing agreement remained unchanged.

**Annexes to receivables discounting agreement with BRE Bank S.A.**

In 2013, the Company executed several annexes to the receivables discounting agreement, entered into on July 30th 2010 with BRE Bank S.A.; the agreed limit was raised from EUR 12,000 thousand to EUR 17,000 thousand, and the agreement's term was extended until September 5th 2014.

Subsequent to the reporting period, on January 21st 2014, the Company executed an annex to the credit facility agreement, whereby the facility's limit was raised to EUR 18,000 thousand.

**Annexes to factoring agreement with BGŻ S.A.**

In 2013, the Company executed several annexes to the factoring agreement. The purpose of these annexes was to further extend the term of the agreement, until September 12th 2015. The last annex of September 12th 2013 also optimised the agreement's financing terms, which included lowering the margin over 1M WIBOR and standardising the financial covenants (including the consolidated ratios) to bring them in line with those applied in the other financing agreements.

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

On August 19th 2013, the Company, acting also on behalf of the other Group companies, executed an annex to the Group's overdraft facility agreement, extending the agreement's term by two years, i.e. until September 30th 2016, and increasing the facility limit from PLN 250,000 thousand to PLN 302,000 thousand. The annex also optimised financing terms, which included reducing the bank's margin over 1M WIBOR.

On October 23rd 2013, the Company executed another annex to the overdraft facility agreement, which standardised the interest calculation method.

On August 19th 2013, the Company, acting also on behalf of the other Group companies, executed an annex to the virtual cash-pooling agreement with PKO Bank Polski S.A.; the scope of the agreement was extended to include Grupa Azoty PULAWY and some of its subsidiaries.

Subsequent to the reporting period, on February 19th 2014 the Company, acting also on behalf of the other Group companies, executed another annex to the virtual cash-pooling agreement, whereby Grupa Azoty SIARKOPOL acceded to this agreement.

**Annex to multi-purpose credit facility agreement with PKO Bank Polski S.A.**

The annex to the multi-purpose credit facility agreement with PKO Bank Polski S.A. optimised and standardised financing terms of the agreement and extend its term until September 30th 2016. On August 19th 2013, the Company executed an annex to the PLN 25,000 thousand credit facility agreement which was due to expire on August 31st 2014.

**Annexes to investment credit facility agreement with BGŻ S.A.**

On September 12th 2013, the Company and BGŻ S.A. executed an annex to the Investment Loan Agreement of March 30th 2012 used to finance modernisation of the sulfuric acid facility. The purpose of the annex was to standardise the Agreement's financial covenants (including the consolidated ratios) to bring them in line with those applied in the other financing agreements. On September 30th 2013, the Company executed another annex to the Agreement to extend by three months, i.e. until December 31st 2013, the deadline for disbursement of the loan tranches.

Subsequent to the reporting period, on January 14th 2014 the Company executed an annex to the Agreement, whereby individual payments were proportionately reduced to reflect partial use of the facility.
## Significant financing agreements executed or annexed in 2013 and until the date of this Report.

<table>
<thead>
<tr>
<th>Agreement date</th>
<th>Annex date</th>
<th>Currency</th>
<th>Amount</th>
<th>Maturity</th>
</tr>
</thead>
<tbody>
<tr>
<td>Annexes to joint financing agreement with PKO Bank Polski S.A. and PZU Życie S.A.</td>
<td>Aug 14 2012</td>
<td>Dec 20 2013</td>
<td>PLN</td>
<td>710,992</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Feb 27 2013</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>Apr 8 2013</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>Sep 23 2013</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>Sep 23 2013</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>Jun 27 2013</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>Dec 20 2013</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Annexes to receivables discounting agreement with BRE Bank S.A.</td>
<td>Jul 30 2010</td>
<td>Jan 21 2014</td>
<td>EUR</td>
<td>18,000</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>Jul 12 2013</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>Aug 8 2013</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>Sep 12 2013</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Annex to factoring agreement with BGŻ S.A.</td>
<td>May 27 2011</td>
<td></td>
<td>PLN</td>
<td>25,000</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Annex to multi-purpose credit facility agreement with PKO Bank Polski S.A.</td>
<td>Jul 5 2006</td>
<td>Aug 19 2013</td>
<td>PLN</td>
<td>25,000</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Sep 12 2013</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>Sep 30 2013</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Annexes to investment credit facility agreement with BGŻ S.A.</td>
<td>Mar 30 2012</td>
<td>Jan 14 2014</td>
<td>PLN</td>
<td>43,662</td>
</tr>
</tbody>
</table>

Source: Company data
5.9. Loans, including in particular loans granted to the Company's related entities

Loans
On November 14th 2013, a loan of PLN 70,000 thousand was granted to the Company by Grupa Azoty ZAK S.A. under a revolving loan agreement of June 14th 2011, as amended. The maturity date was set at March 31st 2014. The parties intend to execute Annex 2 to the agreement, to extend the repayment date until December 31st 2014.

On December 23rd 2013, a revolving loan agreement was executed by the Company and Grupa Azoty SIARKOPOL, whereby a PLN 50,000 thousand loan was granted to the Company for a period until December 31st 2017, bearing interest at 1M WIBOR + margin. The amount so far disbursed under the loan is PLN 20,000 thousand, and as at December 31st 2013 the total amount due to Grupa Azoty SIARKOPOL, including accrued interest, was PLN 20,000 thousand.

Moreover, under a EUR 6,000 thousand loan granted by the Company to its subsidiary Grupa Azoty ATT Polymers GmbH in January 2010, the borrower made timely repayment of another 12 monthly instalments in the period from January to December 2013. As at December 31st 2013, the outstanding amount under the loan was EUR 1,241 thousand (equivalent of PLN 5,148 thousand). In 2013, the Company's interest income earned on the loan was PLN 390 thousand.

5.10. Guarantees and sureties, including in particular guarantees and sureties granted and received by the Company's related entities

Acting upon the Company's instructions, on February 19th 2013 PKO BP S.A. issued a PLN 413,034,546.60 bank guarantee under tranche B2 of the joint financing agreement as security for the subsequent tender offer for 3,114,891 shares in Grupa Azoty PULAWY, representing 16.30% of total voting rights at the company's general meeting, at a price of PLN 132.60 per share. The guarantee expired on April 10th 2013, after disbursement of tranches B and B1 of the joint financing agreement by PKO BP S.A. and PZU na Życie (in a total amount of PLN 308,872,738.20 to cover 100% of the purchase price for 2,329,357 shares in Grupa Azoty PULAWY, representing 12.20% of total voting rights at its general meeting) and release of the guarantee by the beneficiary which intermediated in the tender offer (UniCredit CAiB Poland S.A.).

The guarantee was issued on market terms, in accordance with the joint financing agreement.

The Grupa Azoty Group's related parties did not grant any sureties or guarantees to the Company. In 2013, the following guarantees were issued upon the Company's instruction:
<table>
<thead>
<tr>
<th>Type and parties</th>
<th>Issue date</th>
<th>Security for</th>
<th>Amount (PLN '000)</th>
<th>Validity date</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bank guarantee issued by PKO BP S.A. upon Company's instruction for the benefit of CAIB Poland S.A.</td>
<td>Feb 19 2013</td>
<td>Tender offer for 16.30% of shares in Grupa Azoty PULAWY</td>
<td>413,035</td>
<td>Apr 15 2013 (expired)</td>
</tr>
<tr>
<td>Bank guarantee issued by PKO BP S.A. upon Company's instruction for the benefit of Warsaw Trade Tower sp. z o.o. S.K.A. of Warsaw</td>
<td>Oct 14 2013</td>
<td>Timely payments and performance of other obligations under lease agreement (EUR 38)</td>
<td>158</td>
<td>Mar 20 2017</td>
</tr>
<tr>
<td>Annex to bank guarantee issued by PKO BP S.A. upon Company's instruction for the benefit of Customs Chamber in Kraków</td>
<td>Nov 19 2013</td>
<td>Customs debts</td>
<td>800</td>
<td>Jan 1 2014, Mar 2 2015</td>
</tr>
</tbody>
</table>

Source: Company data
Sureties provided by the Company in respect of obligations of its related entities, as at December 31st 2013

<table>
<thead>
<tr>
<th>Type</th>
<th>Beneficiary</th>
<th>Details</th>
<th>Currency</th>
<th>Issue date</th>
<th>Dec 31 2013</th>
<th>Dec 31 2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>Letter of comfort / Zakłady Azotowe w Tarnowie - Mościcach S.A.</td>
<td>Envia Mitteldeutsche Energie AG Germany</td>
<td>Security for payment of ATT Polymers GmbH's liabilities</td>
<td>EUR</td>
<td>May 24 2010</td>
<td>1,000</td>
<td>1,000</td>
</tr>
<tr>
<td>Letter of comfort / Zakłady Azotowe w Tarnowie - Mościcach S.A.</td>
<td>Envia THERM GmbH</td>
<td>Security for payment of ATT Polymers GmbH's liabilities</td>
<td>EUR</td>
<td>Apr 29 2010</td>
<td>500</td>
<td>500</td>
</tr>
<tr>
<td>Letter of comfort / Zakłady Azotowe w Tarnowie-Mościcach S.A.</td>
<td>Kraków Province Fund for Environmental Protection and Water Management</td>
<td>Security for payment of Grupa Azoty KOLTAR Sp. z o.o.’s liabilities under loan agreement</td>
<td>PLN</td>
<td>Mar 22 2012</td>
<td>1,904</td>
<td>1,904-</td>
</tr>
</tbody>
</table>

**EUR-denominated liabilities were translated into PLN at the EUR/PLN mid rate quoted by the NBP for December 31st 2013: 4.1472 and at the EUR/PLN sell rate of the lead bank of December 31st 2012: 4.1834**

Guarantees provided by banks upon the Company’s instruction within the available credit limits, as at December 31st 2013

<table>
<thead>
<tr>
<th>Type</th>
<th>Beneficiary</th>
<th>Details</th>
<th>Currency</th>
<th>Issue date</th>
<th>Dec 31 2013</th>
<th>Dec 31 2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bank guarantee issued by PKO BP S.A.</td>
<td>Warsaw Trade Tower sp. z o.o. S.K.A. of Warsaw</td>
<td>Timely payments and performance of other obligations under lease agreement</td>
<td>EUR</td>
<td>Oct 14 2013</td>
<td>38</td>
<td>-</td>
</tr>
<tr>
<td>Bank guarantee issued by PKO BP S.A.</td>
<td>Customs Chamber in Kraków</td>
<td>Security for customs procedures</td>
<td>PLN</td>
<td>Dec 14 2011</td>
<td>800</td>
<td>1,600</td>
</tr>
</tbody>
</table>

**EUR-denominated liabilities were translated into PLN at the EUR/PLN mid-rate quoted by the NBP for December 31st 2013: 4.1472**
## Promissory notes

<table>
<thead>
<tr>
<th>Beneficiary</th>
<th>Details</th>
<th>Currency</th>
<th>Issue date</th>
<th>Dec 31 2013</th>
<th>Dec 31 2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>PKN Orlen S.A.</td>
<td>Trade credit security (trade payables)</td>
<td>PLN</td>
<td>Sep 2 2011</td>
<td>25,000</td>
<td>25,000</td>
</tr>
<tr>
<td>Polimex-Mostostal Siedlce S.A.</td>
<td>liabilities under advance payment bond for contract with CNCCC China</td>
<td>USD</td>
<td>Jan 26 2005</td>
<td>590</td>
<td>590</td>
</tr>
<tr>
<td>Director of Customs Chamber in Krakow</td>
<td>Security for existing and future excise tax liabilities</td>
<td>PLN</td>
<td>Dec 20 2012</td>
<td>330</td>
<td>330</td>
</tr>
<tr>
<td>Director of Customs Chamber in Krakow</td>
<td>Security for existing and future excise tax liabilities</td>
<td>PLN</td>
<td>Aug 7 2012</td>
<td>1,050</td>
<td>1,050</td>
</tr>
<tr>
<td>National Fund for Environmental Protection and Water Management</td>
<td>Security for repayment of funds provided for implementation of ash utilization project</td>
<td>PLN</td>
<td>Aug 9 2010</td>
<td>4,588</td>
<td>4,588</td>
</tr>
<tr>
<td>National Fund for Environmental Protection and Water Management</td>
<td>Security for grant repayment</td>
<td>PLN</td>
<td>Dec 12 2013</td>
<td>358</td>
<td>4,588</td>
</tr>
</tbody>
</table>

**USD-denominated liabilities were translated into PLN at the EUR/PLN mid-rate quoted by the NBP for December 31st 2013: 3.0120 and at the USD/PLN sell rate of the lead bank of December 31st 2012: 3.1724**
5.11. Financial instruments - risk management policy and risk management instruments, objectives and methods

The Company is exposed to credit, liquidity, and market risks (involving primarily currency risk and interest rate risk), which arise in the ordinary course of business. The objective of the Company’s financial risk management is to reduce the impact of market factors such as currency exchange rates and interest rates on the basic financial parameters (result for the period, cash flows) previously approved in the Company’s budgets by using natural hedging and derivatives.

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

Credit risk arises principally from the trade receivables, bank deposits and cash-pooling. 47.2% of trade receivables are trade receivables from non-related parties. 83.7% of the Company’s trade receivables from non-related parties are insured under trade credit insurance policies issued by Korporacja Ubezpieczeń Kredytów Eksportowych S.A., which limits the credit risk to the amount of deductible (5-10% of the insured receivables). The insurance policy provides the facility for current monitoring of customer’s current financial position and debt recovery when required. Additionally, upon customer’s real or legal insolvency, the Company receives the compensation payment amounting to 90-95% of insured receivable value. Also, 5.1% of trade receivables from non-related parties are secured by guarantees, letters of credit, and sureties.

Trade receivables from related parties, accounting for 52.8% of total trade receivables, are not insured.

The Company performs ongoing credit assessment including customer monitoring. For these purposes, the Company reviews business intelligence reports, debtor registers and where appropriate require adequate collateral.

Whenever no positive trading history exists between a trading partner and the Company or when transactions are occasional and the credit limit cannot be insured, a prepayment is required. Trade credit is typically granted subject to approval by an insurance company and also on the basis of a positive trading history and the partner’s credit standing assessed based on business intelligence reports, financial statements and payment history.

Credit risk exposure is defined as the total of unpaid receivables, monitored on an ongoing basis by the Company’s internal financial staff (individually for each customer) and, if a receivable is insured, also by the insurance company analysts. Taking into account the procedures in place at the Company and its diversified customer base, the concentration of credit risk not considered significant.

Receivables from foreign customers account for approximately 73.6% (December 31st 2012: 65.9%) of the Company’s total trade receivables, with the balance of 26.4% representing domestic trade receivables (December 31st 2012: 34.1%). The Company’s revenue concentrates in two main segments reflecting the Company’s business profile. Customers of the Plastics segment are the largest group, accounting for 75.5% of total trade receivables (December 31st 2012: 72.4%). In this segment foreign customers prevail, to which sales are made on deferred payment terms within insured credit limits. Another significant group of the Company’s trade receivables relate to the Agro Fertilizers Segment - 21.0% (December 31st 2012: 23.2%) of total trade receivables. The group is dominated by domestic customers, where some sales are made on a prepaid basis; if a trading partners proves creditworthy, it is granted trade credit within insured credit limits.
Cash and cash equivalents. Bank deposits
Cash and cash equivalents are held at banks having high ratings and which maintain safe solvency ratios.

Liquidity risk
Liquidity risk is the risk that the Company will not be able to repay its financial liabilities when due. The risk is minimised through appropriate liquidity management, carried out by correctly determining cash resources based on cash flow projections for various time horizons. In its capacity as the Parent, the Company optimises free cash management through cash-pooling, revolving facilities and dividend policy in the Group, therefore the liquidity risk is very low. The Company also manages the overdraft facilities of the Group’s entities and holds free factoring limits, further reducing the liquidity risk. In 2013, there were no defaults in payments of liabilities or other conditions relating to the liabilities that could result in early payment requests.

Market risk

Currency risk
The Company is exposed to the currency risk on foreign currency transactions including more than the two-thirds of revenue and one third of expenses. Exchange rate fluctuations affect both revenue and costs of raw materials. The appreciation of the domestic currency has a negative impact on the profitability of export and domestic sales denominated in foreign currencies. The depreciation of the domestic currency positively impacts the profitability. Changes in the value of export revenues and domestic revenues measured in foreign currencies resulting from the exchange rate fluctuations are partially offset by the changes in costs of imported raw materials which significantly reduces the Company’s exposure to the currency risk. The Company considers the current and planned net currency exposures and reduces the existing currency risk resulting from the net currency exposure by using selected hedging instruments and activities. The Company used primarily in the reporting period the natural hedging, factoring of receivables denominated in foreign currencies and for approximately 50% other currency exposures – currency forwards.

Interest rate risk
The Company’s exposure to changes in interest rates applies mainly to variable interest-bearing bank credits, loans and lease liabilities based on WIBOR + margin or respectively EURIBOR + margin in case of bank loans and factoring in EUR or LIBOR + margin for bank loans in USD, and additionally cash and cash equivalents and financial assets for which interest payments are determined based on the of abovementioned market rates. The Company does not hedge interest rate risk.

The activities aimed to reduce the interest rate risk include ongoing monitoring of the situation on the money market. The Company’s cash surpluses in 2013 were mostly used in the virtual cash-pooling facility, with the interest rate of 1M WIBOR, and the remaining part was held as short-term interest-bearing bank deposits with interest based on the market rates on the date of opening the deposit.

The previously expected decrease in domestic market interest rates (WIBID and WIBOR) was observed in the first half of 2013, followed by the stabilisation in the second half of 2013, after the interest rate reductions announced by the Monetary Policy Council were made. It positively impacted the interest rates on the Company’s credits and loans in 2013, and limited the growth of interest expense resulting from higher aggregate amount of the Company’s financial liabilities.

The interest received on bank deposits proportionately reflected the average variable interest rates on financial liabilities.
Risk of changes in prices of raw materials, products and services

In order to reduce the risk, the Company takes steps to include such provisions in sales contracts which are symmetric to the provisions included in its supply contracts (e.g. references to ICIS-LOR quotations).

Fair value of financial instruments

Details of the fair value of financial instruments whose measurement is possible are presented below:

- Cash and cash equivalents, short-term bank deposits and short-term bank loans. Carrying amounts of such instruments approximate their fair value because of the short maturities of such instruments.
- Trade and other receivables, trade payables. Carrying amounts of such instruments approximate their fair value because of the short maturities of such instruments.
- Long-term bank financing. The Company measures the fair value of long-term bank loans at amortised cost, using the simplified method. Carrying amounts of such instruments approximate their fair value due to the variable interest rates.
- Currency derivatives and EUA/CER swaps. Carrying amounts of such instruments are equal to their fair values.
- Available-for-sale financial assets. Carrying amounts of such instruments are equal to their fair values.

There were no financial instruments recognised by the Company in 2013 for which the initial value resulting from the transaction would differ from their fair value as at the date of transaction, determined using the appropriate valuation method.

The fair values of the Company's fair value-measured financial instruments, by input level according to IFRS 7.27A, were as follows:

Derivatives

Currency derivatives

As at December 31st 2013, the nominal value of open currency derivatives (forward contracts) amounted to EUR 5.5 million (EUR 2.5 million with maturity in January 2014, EUR 1 million with maturities in February and in March 2014 each, EUR 0.5 million with maturities in April and May 2014 each). As at the end of 2013, the Company did not have any open derivatives in USD. As at December 31st 2012, the nominal value of the Company’s open derivatives to sell currencies was EUR 4m.

The Company measures derivatives at fair value, based on valuations provided by the relationship banks and data sourced from electronic data providers. Transactions are only concluded with reliable banks and are based on framework agreements. All derivative transactions reflect the real transactions affecting the currency cash flows. Currency forwards and derivatives reflect the Company's net currency exposure and are entered into to reduce the impact of currency fluctuations on profit or loss.

Fair value of derivatives

The fair value of open currency forwards as at December 31st 2013 amounted to PLN 501 thousand and was recognised as other financial assets (December 31st 2012: PLN 410 thousand). No hedging relationships were established for these transactions. As at December 31st 2012, the Company’s open currency contracts were measured at PLN 410 thousand and were recognised under other financial liabilities.
5.12. Company's expected financial standing

The Company is fully solvent, with good credit standing. This means that the Company is able to pay its liabilities as they fall due and to hold and generate free operating cash flows to further support payment of such liabilities. In 2013, the Company paid all of its borrowing-related liabilities when due, and there is no threat to the Company's ability to continue servicing its debt.

In 2013, the Company also paid out dividend from its 2012 profit, as per relevant dividend resolutions passed by the general meetings.

The Grupa Azoty Group has access to overdraft limits under virtual cash pooling, which may be used at times of increased demand for funding by Group companies; and to additional free multi-purpose and working capital credit lines available to its subsidiaries. The Company complies with the uniform covenants of its facility agreements which provide the Company with an ability to significantly increase its level of financial debt when and as needed.

The Company's strategic lenders view its financial standing as sound, and there are no significant threats or risks of the strong position deteriorating in the future.

The Company's Budget for 2014 takes into account all market forecasts available to the Company as well as detailed budgets of its individual Business Units. The Budget accounts for the main assumptions and optimises economic parameters derived from trends identified in the macroeconomic environment and internally, within the organisation. According to the assumptions, the fertilizer industry will be affected by adverse developments which will not be conducive to supporting sales growth or strong financial performance, though the Company's financial position and liquidity are not expected to deteriorate in any material way.

6. Risk, threats and the Company's growth prospects

6.1. Significant risk factors and threats

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 in section 5.11 - Financial instruments - risk policy and instruments, objectives and methods for risk management, and the risks described in section 6.2.1 Significant external growth factors, the Company identifies the following types of risk:

Risk of the Company's performance deteriorating due to adverse macroeconomic conditions

The Company's financial standing depends on economic cycles in Europe and globally, especially in the B2B segments. Any deterioration of the macroeconomic situation may have an adverse effect on implementation of the Company's business and financial strategies. Factors such as the phase of the economic cycle, GDP and its growth, currency exchange rates or geopolitical situation have a bearing on the Company's financial performance. Adverse changes in the economy may affect demand for and prices of the Company's products, may cause an increase in prices of raw materials, and may also indirectly affect the economic situation in the agricultural sector and the purchasing power of the Company's customers.

In order to defend against the effects of such adverse market changes, the Company monitors the market situation on an ongoing basis, and carries out in-depth analyses of the economic conditions on and forecasts for its target markets.

Risk related to intensified competition and product pricing

The Company operates in a demanding and changeable competitive environment, often having to cope with an unfavourable demand-supply relationship, while prices of the chemical products it manufactures are to a considerable degree a function of the supply and demand levels seen locally and internationally. Some of the Company's competitors may have access to newer technologies or cheaper raw materials, or - thanks to their more favourable geographical location - may have better access to raw materials and target markets. Because of these factors, the prices of the Company's products and the demand for these products fluctuate.

The relevant risks include:

- Potential deterioration of the competitive position of the Company's Agro Fertilizers segment, which is mainly determined by the cost of natural gas, the main cost item in the manufacture of nitrogen fertilizers. In this respect, the European manufacturers are disadvantaged relative to fertilizer producers operating in other parts of the world, for instance in the Middle East, the
USA (shale gas), Russia (dual pricing of natural gas) or Asia (chemical manufacturers integrated with raw material suppliers).

- At the beginning of 2014, the price of gas was reduced in Ukraine by more than 30%, therefore actions taken by competitors may result in increased product supply, particularly given the abolition of import duties on Ukrainian nitrate in 2012.
- The shale gas revolution in the USA poses the threat that new chemical plants may be constructed to take advantage of access to this cheap commodity, which may lead to cheap imports of processed products, including nitrogen fertilizers. The USA, which has thus far been a large importer of nitrogen fertilizers and a large market for European (mainly Russian) companies, may now become self-sufficient and, more importantly, this may cause pricing pressures and lead to a situation where Russian companies, having lost their position in the US, start looking for new markets.
- The signing of the Transatlantic Trade and Investment Partnership (TTIP) agreement by the European Union and the US may come as a threat to the Company if no protection instruments such as deferred reduction of customs duties or bilateral safeguards are implemented. Further, price pressures emerge in light of the plans to construct over 150 new chemical installations designed to operate on cheap natural gas, coupled with the fact that the price of gas in the USA is several times lower than in Poland.
- There is a risk that the safeguards protecting the EU market against imports of products originating from regions which apply a dual commodity pricing policy might be loosened. The dual pricing policy pursued by some countries poses a threat to the Company's business and its ability to its products. Dual pricing of natural gas is a case in point. Russia exports its gas to Europe at prices three times higher than the prices paid for this commodity by Russian fertilizer manufacturers. Such policy favours the Russian companies. Protection is provided by anti-dumping tariffs imposed by the European Union. In mid-2013, the European Commission decided to review of these instruments and there exists a risk that the Commission might decide that the tariffs are expire at the end of 2014. The Grupa Azoty Group actively participates in the review process and provides support to Fertilizers Europe, a fertilizer industry organisation, to help it convince the Commission that there is a strong case for keeping the tariffs. The Group also participates in the process of changing the EU market protection instruments - TDI.
- The reduction of export duties on urea announced by the Chinese government and the customs duty “window” which lasted several months, combined with the temporary decrease in urea consumption in India and other Asian markets may lead to a build-up of urea supply globally (China has increased its annual urea exports from about 3m tonnes to nearly 7m tonnes). New urea manufacturing capacities emerging in various parts of the world may result in pricing pressures which will affect not only urea but also other nitrogen fertilizers in Europe, the Company's main fertilizer market.

In the other areas, the following risks should be taken into consideration:

- Possible decline of prices of the key products in the Plastics Segment (polyamide and caprolactam), caused by increased caprolactam and polyamide supplies from Asia, may affect demand for polyamides manufactured from caprolactam.

The Company takes the following steps to mitigate these risks:

- In order to reduce the impact of adverse price changes, the Company integrates its sales policy, and diversifies its sales markets and customer base. With a view to minimising seasonal fluctuations in demand for its products, the Company enters into long-term trade alliances based on framework offtake agreements.
- The Company is active internationally as a member of a number of European industry organisations, including Fertilizers Europe, CEFIC, ECPI, Plastics Europe and IFA. It leverages its membership in these organisations to strengthen market protection tools and monitor any possible threats, which enables it to early respond to them and mitigate their adverse effects. These activities have resulted in the European Commission re-visiting the issue of negative impact Russian ammonium nitrate imports have on the market. Following the Commission's decision to re-examine the situation, protective tariffs will remain in force for the next several months, which will prove beneficial to the Company and other nitrogen fertilizer manufacturers in the European Union.
- The Company improves the quality of its products, adapting the product specifications to the customers' changing preferences. The key directions for product development are mechanical
granulation and launch of larger granules. New trends in fertilizer production technologies include manufacturing of fertilizers better tailored to particular soil and crop types, and the Company takes steps to address the customers' needs and add the required nutrients to its fertilizers.

- The Company is also taking steps to maximise sales margins through such measures as appropriate allocation of low-margin ammonium sulfate within the Group and its use as feedstock in manufacturing nitrogen-sulfur fertilizers.
- The Company has undertaken a number of operating initiatives designed to strengthen its control of the market, shorten the delivery chain from the producer to end user (farmer), ensure streamlined dispatch and distribution of fertilizers, quickly react to market price fluctuations etc.; these initiatives include taking control of transport operations, establishment of external storage depots, formation of the Trade Committee, etc.
- The Company is strengthening its market position through further acquisitions, including transactions providing direct access to feedstock sources.
- The Company strengthens its position on foreign markets by leveraging, at the Group level, trade relations established in the past by individual companies which have merged to form the Grupa Azoty Group.

Risk of feedstock availability and prices
The Company's manufacturing operations depend on several key raw materials and energy. Given the relatively high market concentration, the Company does not always have an advantage in negotiations or ability to affect prices, particularly in the case of raw materials purchased from a single supplier or a small group of suppliers. There is a risk that limitations on the part of suppliers could adversely affect the Company's production capacity, or an increase in commodity prices could hamper competitiveness of its products.

The key risks in this area may come from:
- the price and disruptions in the supply of natural gas,
- volatility in the ammonia market,
- high prices of benzene and phenol, affecting caprolactam production.

The Company's strategy is to purchase raw materials within the framework of a common procurement policy, and to ensure security of supplies through long-term contracts with guaranteed delivery volumes and price formulae. In the case of some key feedstocks, the Company and the Group enjoy a competitive advantage as the largest or one of the largest consumers in Poland as well as in Central and Eastern Europe.

The Company and the Group's strategic objective is to secure an optimum supply of production inputs at the Group companies, while diversifying the supply sources and reducing costs to purchase key raw materials.

In 2013, the Company took certain steps to extend the value chain by acquiring its own sources of raw materials (e.g. by acquiring 85% of shares in Grupa Azoty SIARKOPOL - the Group's strategic supplier and regional leader in sulfur production).

While the price of natural gas is already the main component of production costs, the planned investments in power generation and capacity expansion may cause the Company's demand for gas to increase even further. In the search for alternative and competitive sources of gas, the Company and the Grupa Azoty Group take efforts to diversify its supplies, and report on these efforts in their press releases and reports. They negotiate with alternative gas suppliers, leveraging the Group's stronger bargaining position. The Group's gas requirements are also partially met via local sources. The Company and the Group take steps to satisfy their overall gas demand through a combination of a long-term contract with the main supplier with annual or monthly contracts and with transactions made on the exchange, taking into account the current requirements of individual companies. Steps are also taken to comprehensively manage all gas sources so as to balance supplies between all companies of the Group.

The resulting savings may be close to PLN 15m per year. In order to minimise the costs resulting from high gas prices, the Grupa Azoty Group companies also focus on projects designed to reduce gas consumption.

As for the main oil products used by the Company and the Group, their prices depend on crude oil prices, which in turn are directly linked to political and economic conditions throughout the world. In order to reduce the consequent risk, the Company tries to diversify the sources from which it procures key raw materials and execute long-term strategic contracts directly with producers, while
developing an optimised logistics model. The terms of transactions are based mainly on price formulae linked to market prices.

Risk of major industrial accidents or technical failures disrupting the continuity of processes and operation of key production units
The Company is classified as a plant with a high risk of a major industrial accident. It is a risk inherent in its day-to-day operations. Industrial accidents may result in plant stoppages, fires, environmental contamination, accidents at work or, in extreme cases, explosions.

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

Prevention of industrial accidents at the Company is achieved through a range of activities, including:
- identification of hazards inherent in technological processes, storage and transport, and implementation of measures to reduce the risk of an accident,
- ongoing monitoring of the condition of machinery and equipment,
- fitting of key installations with safety and protection systems to minimise the risk of a major accident and environmental contamination, as well as risks to life and limb,
- implementation of new projects and upgrades based on technical and organisational solutions designed to ensure occupational health and safety,
- ongoing employee training,
- introduction of corporate rules on how to report and investigate industrial accidents and failures,
- analysis of technical and technological risks.

Risks associated with the planning and execution of strategic projects
Delivery of the Grupa Azoty Strategy for 2013-2020 depends on a range of factors, including those outside of the Company's control. These are external factors in the Group's environment, such as macroeconomic factors, market conditions, business environment and activities of the Company's main competitors. Their negative impact could hinder the Company and the Group from developing as planned and from achieving their strategic objectives.

The risk inherent in the execution of strategic projects lies in the possibility that major growth-oriented initiatives and projects will not be completed according to plan or will not deliver the expected results, and that the goals they are intended to achieve will not be adequately translated into the project planning, monitoring or execution processes.

All planned and effected investment projects are meant to enhance the Company's competitive advantage on the market. The Company and the Group have in place internal procedures to define and govern the preparation and execution of investment projects. Also, as part of the ongoing consolidation process, lists of strategic projects and their roadmaps have been agreed on, oversight has been introduced over strategic projects and their reviewed assumptions (business effects, budgets, KPIs, schedules, division of responsibilities), and regular updates are provided on projects status.

Grupa Azoty is working on investment projects begun in previous years, while embarking on new ones, important from the point of view of the Company's interests. In the years ahead, the focus will be on projects related to power assets upgrading, to bring them in line with the requirements of the IED Directive on industrial emissions. Another focal area will be mineral fertilizers, which are of key importance for the Company's operations. The Company plans to expand the range of, and the production capacities for, mechanically granulated nitrate fertilizers. The Group companies will also upgrade their ammonia lines, mainly with the aim of making the processes less energy intensive. In the area of engineering plastics, capacity additions are planned. Upgrade projects are also in the pipeline focused on improving the energy efficiency and, as a consequence, reducing production costs for chemicals.
Risk associated with permitted levels of GHG and other pollutant emissions, and management of emission limits as required by EU directives

The Company's technological processes generate atmospheric emissions of greenhouse gases and pollutants. The procedure for managing emissions is prescribed by legal regulations and entails expenses related to the EU emissions trading scheme (EU ETS). Directive 2009/29/EC expanded the scope of the EU ETS to cover selected businesses, including the chemical industry, in the third trading period from 2013 to 2020. This means that, apart from the Group's onsite co-generation plants, which have been covered by the scheme since 2006, it now also covers other installations, including the ammonia and nitric acid facilities. On the one hand, the ETS III system is based on free allocation of GHG emission rights for industrial installations and co-generation plants (according to the effective emissions monitoring plan) and, on the other hand, on purchases of deficit rights by auction. These mechanisms drive up the costs incurred by the Company in connection with GHG emissions. Given that the level of GHG emissions exceeds the free-of-charge allocation of emission rights, the IED Directive forces companies to make costly investments to reduce their emissions of dust, NOx and SOx, so as to bring them in line with the limits applicable from 2016.

The emissions monitoring system has been expanded to include the additional areas covered by the ETS scheme, as specified above, and ongoing emissions balancing has been introduced. Potential threats and risks in the area of emissions management are identified and recorded, and then appropriate measures are taken to mitigate their impact.

There is a risk of rising prices of emission rights and a risk related to their volume.

In order to minimise the risk and cost of implementing the ETS III, the Company's Management Board has adopted strategies to deal with this issue in the coming years.

Furthermore, there is a risk that the relevant state authorities may delay approval of the free allocation proposed by the industry, which will result in additional costs to purchase the required rights.

In addition to meeting the requirements of the ETS scheme, there are plans for investment projects to reduce NOx, SOx and dust emissions to the level required by the EU directive.

6.2. Grupa Azoty Group’s significant external and internal growth factors

6.2.1. External factors

According to estimates of the International Monetary Fund (IMF), the global economy's growth rate in 2013 was slightly lower than in 2012, at 3.0% (2012: 3.1%). The economy is expected to pick up in 2014-2015: the IMF forecasts the global GDP at 3.7% in 2014 and at 3.9% in 2015. There are also more signs indicating that the European economy has reached a turning point. Even though the European Commission expects that the EU's GDP for 2013 will not be higher than in 2012, the growth rates predicted for 2014 and 2015 is 1.4% and 1.9%, respectively. The European Commission estimates that in 2013 the euro zone's GDP fell by 0.4%, while in 2014 it is to grow by 1.1%, followed by 1.7% in 2015. The IMF estimates that the Polish economy, having experienced a strong slowdown in 2012 and in the first half of 2013, is beginning to recover. The GDP growth rate for Poland in 2013 is estimated at approximately 1.3%, and in 2014 it is expected to increase to ca. 2.4%.

Development of the chemical industry strongly depends on changes in global economy and prices of basic feedstocks, especially oil and gas. ICIS Chemical Business estimates the 2013 production growth in the chemical sector globally at approximately 2.2% (2012: 2.5%). Despite the fall in European chemical output in 2012, the outlook forecasts for the region is more optimistic. American Chemical Council projects that in 2014-2018 the chemical industry production in Western Europe will be growing at 1.4-2.1%, and in Central and Eastern Europe the growth rate will be 4.1-4.5%. The sector's growth in the region can be adversely affected by higher feedstock prices, including those of oil and gas, as well as the ever rising competitive pressures from Asian producers.

Market opportunities

- Good prospects for the nitrogen fertilizers market until 2022 in the EU-27 countries (growth by 3.4%), and especially in the CEE countries (growth of 10.8%),
- Good prospects for the phosphate fertilizers market until 2022 in the EU-27 countries (growth by 11.5%), and especially in the CEE countries (growth by 20%),
- Good prospects for the potassium fertilizers market until 2022 in the EU-27 countries (growth by 16.6%), and especially in the CEE countries (growth by 24%).
• Growth of farmers' purchasing power, modernisation of agriculture - use of EU direct subsidies,
• Continued favourable relation between farm-gate prices of agricultural produce and selling prices of fertilizers,
• Growing popularity of liquid fertilizers and awareness of their benefits,
• Growing market for non-agricultural applications of selected compounds - e.g. urea in the automotive and power sectors.

Threats
• Lingering economic slowdown,
• Reduced protection for the EU fertilizer market,
• Higher imports of nitrogen fertilizers to Poland from regions with access to cheaper gas, high production capacities and low internal demand,
• Susceptibility of the fertilizer business to changes in economic conditions,
• Unfavourable relation between farm-gate produce prices produce and fertilizer prices,
• Unstable political situation in some of Middle East and African countries - sources of production feedstock supplies,
• Oversupply of caprolactam on the Chinese market and China's potential independence from caprolactam imports,
• New investments in regions with cheap natural gas (nitrogen fertilizers),
• Higher prices of strategic feedstocks.

6.2.2. External factors

Strengths
• High, market-accepted quality of key products,
• Stable distribution channels for mass products,
• High capacity utilisation rate in certain manufacturing lines,
• Proprietary caprolactam, fertilizer granulation and polyoxymethylene technologies,
• Leading position on Poland’s fertilizer market,
• Strong product brands with loyal customers,
• High level of technological integration,
• Balanced product portfolio,
• Development of the product portfolio to increase the share of speciality fertilizers
• Experienced and qualified personnel with a high level of professional competences,
• Good image of the Company and the Grupa Azoty Group, decades of experience in the chemical industry.

All these factors combined make up a coherent image of the Company, which runs a responsible, balanced and development-oriented policy. By diversifying the product portfolio, the Company is able to apply its financial resources to particular areas of operations, to reflect conditions prevailing in individual market segments. This approach enables the Company to use its strengths to both take advantage of opportunities and counteract potential risks.

Weaknesses
• Small operational scale compared with the main competitors, limiting the competitive advantage in non-fertilizer markets,
• Relatively low technology levels in some facilities,
• High employment and relatively low salaries,
• Lack of stable access to strategic commodities, limiting growth opportunities,
• Depreciation of production asset necessitating significant expenditure on modernisation and upgrades,
• Limited level of operating competence in markets for highly processed products addressed to a mass customer,
• Strong dependence on natural gas, the main feedstock,
• Production of commodity products and the consequent inability to achieve higher margins,
• Need to further solidify the market positions for the Company's products,
• Growing distribution costs on higher costs of rail and sea transport,
• Geographical dispersion of plants and organisational units.

The product chain needs to be developed towards high-margin products offering better earning
6.3. Growth directions

Future growth directions for the Company are identified in the Grupa Azoty Group Strategy for 2013−2020, a corporate strategy statement, revised in 2013 to reflect the ongoing industry consolidation. The document sets out a vision of how the Company and its Group want to grow their businesses and create value in the years ahead. It has been developed for the entire Grupa Azoty and the Group’s activities are synonymous with the Company’s activities.

In 2013–2020 the Grupa Azoty Group will conduct manufacturing and marketing operations in the following sectors:

- products for the agricultural sector, in particular mineral fertilizers,
- technologically-advanced materials sector, in particular engineering plastics,
- organic chemicals, particularly caprolactam, melamine, oxo alcohols, plasticizers and specialty chemicals,
- inorganic chemicals, particularly ammonia and titanium white.

The strategic objectives are as follows:

- Company’s presence in the main Warsaw Stock Exchange index,
- Emphasis on generating industry-leading rates of return for shareholders of Grupa Azoty companies,
- Maintenance of the Company’s top-3 position in the European fertilizer market.

Grupa Azoty will aim to achieve these objectives through:

- increasing the scale of core operations through organic growth, alliances and M&As, both in Poland and abroad,
- advancing integration between the Grupa entities to maximise operating synergies within the Group,
- reducing Grupa Azoty’s sensitivity to energy costs through the use of technological and energy-efficient solutions,
- reducing Grupa Azoty’s sensitivity to changing economic cycles and prices of natural gas and petrochemical commodities by extending product chains,
- ensuring compliance with environmental and technical safety requirements,
- streamlining inventory management processes,
- developing advanced technologies and ensuring efficient project delivery,
- streamlining logistics processes,
- improving the effectiveness of key processes and of knowledge gathering and management,
- continuously adapting product quality to customer requirements,
- horizontal diversification, leveraging synergies with the existing product portfolio,
- continuous product improvement using innovative technology,
- growing the organisation’s intellectual capital and creating conditions conducive to transforming the potential into an asset with substantial market value.

6.4. Company’s growth prospects and market strategy

In the coming years, the Company will focus on efforts to grow value across the Group, by capturing external opportunities and reinforcing the competences that drive its competitive position. Specifically, the Company will strive to accomplish the following:

- optimise its operating expenses and financing structure,
- increase utilisation rates of its process units, also by improving availability and eliminating bottlenecks,
- reduce consumption of strategic feedstocks and utilities in the production processes,
- ensure compliance with environmental and technical safety requirements,
- streamline inventory management processes,
- develop advanced technologies and ensure efficient project delivery,
- streamline logistics processes,
- increase the efficiency of synergies, and
- grow the value of its intellectual capital.

The Company and the Group explore their growth prospects mainly in the context of their operating
segments covering different markets and serving different customers, hence the importance of continuous monitoring of the target and product markets to identify prevailing trends and sector-specific legal developments.

**Mineral fertilizers**
In the period covered by the strategy, the focal area will be the mineral fertilizers sector, which is of key importance for the Company's and the Group's operations. The Group is consistently adding new to its product mix liquid and specialist fertilizer products, and other products and services for the agricultural sector. The Company intends to increase its manufacturing capacity for mechanically granulated nitrate fertilizers. Also, ammonia lines will be upgraded, mainly to reduce energy-intensity of the manufacturing processes. When the overall market climate improves, the Company and the Group will pursue mergers, acquisitions and strategic alliances.

**Plastics**
In the period covered by the strategy, polyamides, polyoxymethylene and modified plastics will remain the key elements of the Group's engineering plastics portfolio. Furthermore, the Group is planning to increase its engineering plastics production capacity and further diversify the product range in 2013–2020.

**Chemicals**
In the period covered by the strategy, caprolactam, melamine, oxo alcohols, plasticizers, ammonia, concentrated nitric acid, titanium white and urea (used for non-fertilizer purposes) will be the core constituents of the Company's and the Group's chemical product portfolio. The portfolio will be further diversified, particularly to include new specialty chemicals. Also, steps will be taken to balance the caprolactam and polyamide-6 production capacities. The range of plasticizers will be expanded to include next-generation products.

In addition, upgrades of production units are in the pipeline, focused on improving their energy efficiency and, as a consequence, reducing the costs of manufacturing chemical products.

**Energy**
In 2012–2020, the existing coal-powered co-generation facilities will continue as the main source of heat and electricity for the production installations. The existing CHP facilities will be gradually modernised, with the scope of upgrades adapted to the changing legal requirements, particularly the environmental regulations. The Company's ability to secure long-term access to heating power and electricity will mainly depend on the adopted legal and market regulations.

Tee product and market strategy implementation efforts will be supported by stepping-up research and development programmes. In parallel to building R&D and innovation alliances with external partners, the Group will use its own R&D resources, developed around the Tarnów Chemical Technology Research and Development Centre and the Puławy Competence Centre. The main objective of the R&D activities is to develop knowledge-based competitive advantage which will facilitate development of a more innovative product, process and technology portfolio.

7. **Qualified auditor**

The agreement with KPMG Audyt Sp. z o.o., executed on July 10th 2012, and Annex 1 thereto of October 15th 2013, cover the following:
- audit of separate and consolidated financial statements for the 12 months ended December 31st 2012, December 31st 2013 and December 31st 2014,
- review of separate and consolidated financial statements for the six months ended June 30th 2012, June 30th 2013 and June 30th 2014,
- organisation of workshops.
8. Litigation

There are no proceedings pending at the Company concerning liabilities or debt claims whose individual or aggregate value would represent 10% of the Company’s equity, i.e. would satisfy the materiality criteria specified in Par. 87.7.7 of the Regulation of the Minister of Finance of February 19th 2009 on current and periodic information.

**ISARIOS Industriekapital AG’s claim concerning ATT Polymers**

At present, proceedings are pending against the Parent concerning reverse transfer of ownership of shares in Grupa Azoty ATT Polymers GmbH.

On November 30th 2012, the Company received a summons of ISARIOS Industriekapital AG against the Company from the Court of Arbitration of the International Chamber of Commerce in Paris. The claim demanded the return of shares in Grupa Azoty 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; and also contained a demand to compensate ISARIOS Industriekapital AG for lost benefits. The plaintiff valued the claim at EUR 1,000 thousand. As the amount was determined for the purposes of assessing costs of arbitration proceedings, the costs which the Company may potentially incur may exceed this amount. From the date of the claim (November 16th 2012), the arbitrage proceedings are technically considered to be open.

On January 30th 2013, the law firm representing the Company filed a response to the claim, demanding dismissal of the claim in its entirety and award of arbitration costs. Further, on June 12th 2013 an additional formal complaint was made concerning the value of the dispute, which should be adjusted to the actual value of the company. The complaint was accepted by the arbitration court, which in September 2013 increased the value of the dispute to EUR 10,200 thousand, calling the sides to pay additional arbitration fee. The Company’s fee was assessed at USD 140 thousand, and was paid in full.

ISARIOS Industriekapital AG also filed a petition with a court of general jurisdiction, requesting that a warning concerning the challenged ownership of Company’s shares be put on record. On July 11th 2013, the court dismissed the petition, declaring that there were no grounds to question the ownership of shares as at the date of its decision.

The first hearing was held in Düsseldorf on February 12th 2014. Prior to the hearing, the parties exchanged their pleadings, maintaining their earlier positions which remained substantially unchanged from the time of filing the claim and the response to the claim. Witnesses, whose number was limited by the arbitration tribunal to four (two representing the petitioner and two representing the respondent), were heard. A decision was made that there would be another exchange of pleadings to recapitulate the parties’ respective positions. After the exchange of pleadings, the proceedings are expected to be closed and the ruling to be made. The case may be expected to be closed in April/May 2014, but the proceedings may take longer if the Arbitration Court takes further procedural decisions (as to hearing of witnesses, further exchange of pleadings, etc.).
As at the reporting date, the Company’s legal advisers maintain their earlier opinion on the validity of the Grupa Azoty ATT Polymers GmbH share sale agreement, claiming that there are no circumstances justifying reverse transfer of ownership of the shares to any entity. However, there can be no assurance that actions taken by ISARIO Industriekapital AG or other entities raising claims to Grupa Azoty ATT Polymers GmbH shares will not result in a negative ruling on the Grupa Azoty ATT Polymers GmbH acquisition by the Company, which could adversely affect the operations, financial performance and financial standing of Grupa Azoty.

9. Governing bodies

9.1. Remuneration and additional benefits

Remuneration of Supervisory Board members for holding office at the Company, paid for the term of office

<table>
<thead>
<tr>
<th>Name</th>
<th>Remuneration paid</th>
<th>Remuneration due</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Monika Kacprzyk-Wojdyga</td>
<td>186</td>
<td>-</td>
<td>186</td>
</tr>
<tr>
<td>Ewa Lis</td>
<td>163</td>
<td>-</td>
<td>163</td>
</tr>
<tr>
<td>Jan Wais*)</td>
<td>276</td>
<td>-</td>
<td>276</td>
</tr>
<tr>
<td>Robert Kapka**</td>
<td>184</td>
<td>-</td>
<td>184</td>
</tr>
<tr>
<td>Tomasz Klikowicz***</td>
<td>194</td>
<td>-</td>
<td>194</td>
</tr>
<tr>
<td>Artur Kucharski</td>
<td>139</td>
<td>-</td>
<td>139</td>
</tr>
<tr>
<td>Marek Mroczkowski</td>
<td>139</td>
<td>-</td>
<td>139</td>
</tr>
<tr>
<td>Jacek Obłękowski</td>
<td>153</td>
<td>-</td>
<td>153</td>
</tr>
<tr>
<td>Zbigniew Paprocki****</td>
<td>248</td>
<td>-</td>
<td>248</td>
</tr>
<tr>
<td>Ryszard Trepczyński</td>
<td>139</td>
<td>-</td>
<td>139</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>1,821</td>
<td>-</td>
<td>1,821</td>
</tr>
</tbody>
</table>

*) including remuneration under employment contract with the Company - PLN 214 thousand,

**) including remuneration under employment contract with the Company - PLN 115 thousand,

*** including remuneration under employment contract with the Company - PLN 72 thousand,

**** including remuneration under employment contract with the Company - PLN 125 thousand,
Remuneration of Management Board members for holding office at the Company, paid for the term of office

<table>
<thead>
<tr>
<th>Name</th>
<th>Remuneration paid</th>
<th>Remuneration due</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Paweł Jarczewski</td>
<td>639</td>
<td>250</td>
<td>889</td>
</tr>
<tr>
<td>Andrzej Skolmowski</td>
<td>468</td>
<td>375</td>
<td>843</td>
</tr>
<tr>
<td>Witold Szczypiński</td>
<td>709</td>
<td>375</td>
<td>1,084</td>
</tr>
<tr>
<td>Marek Kapłucha</td>
<td>198</td>
<td>188</td>
<td>386</td>
</tr>
<tr>
<td>Marian Rybak</td>
<td>31</td>
<td>188</td>
<td>219</td>
</tr>
<tr>
<td>Krzysztof Jałosiński</td>
<td>375</td>
<td>375</td>
<td>750</td>
</tr>
<tr>
<td>Artur Kopeć *)</td>
<td>455</td>
<td>375</td>
<td>830</td>
</tr>
<tr>
<td>Jerzy Marciniak</td>
<td>1,208</td>
<td>-</td>
<td>1,208</td>
</tr>
</tbody>
</table>

*) including remuneration under employment contract with the Company - PLN 55 thousand

Remuneration of management and supervisory personnel for holding office at subsidiaries, paid for the term of office

<table>
<thead>
<tr>
<th>Name</th>
<th>Remuneration paid</th>
<th>Remuneration due</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Andrzej Skolmowski</td>
<td>402</td>
<td>-</td>
<td>402</td>
</tr>
<tr>
<td>Witold Szczypiński</td>
<td>131</td>
<td>-</td>
<td>131</td>
</tr>
<tr>
<td>Marek Kapłucha</td>
<td>225</td>
<td>-</td>
<td>225</td>
</tr>
<tr>
<td>Marian Rybak</td>
<td>388</td>
<td>-</td>
<td>388</td>
</tr>
<tr>
<td>Krzysztof Jałosiński</td>
<td>465</td>
<td>-</td>
<td>465</td>
</tr>
<tr>
<td>Jerzy Marciniak</td>
<td>11</td>
<td>-</td>
<td>11</td>
</tr>
</tbody>
</table>

| Total                    | 1,622             | -                | 1,622  |

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

The employment contracts of the current-term members of the Company’s Management Board provide for a severance pay amounting to three months’ remuneration equivalent if the employment is terminated as a result of removal from the Management Board prior to expiry of the office term.

Members of the Management Board are not entitled to severance if their removal from the Management Board results from justified termination of the employment contract without notice for reasons attributable to the employee, pursuant to Art. 52.1 of the Polish Labour Code. Furthermore, under the relevant non-competition agreements, upon termination of employment members of the Management Board are entitled to compensation amounting to 100% of salary provided for in the employment contract, paid out over a period of six/twelve months. This right expires on breach of the non-competition agreement.

The above is not applicable to Artur Kopeć, member of the Management Board elected by employees, who is at the same time employed at the Company under employment contract. Mr. Artur Kopeć has executed a non-competition agreement only for the duration of the employment term.
10. Statement of compliance with corporate governance rules


10.1. Corporate governance code applicable to the Company and availability of the text of the code to the public


To adjust the internal regulations to the Code of Best Practices, the Company has in place the Organisational Regulations of July 22nd 2008 (as amended), which contain corporate governance principles.

Since 2009, the Company has been a constituent of the RESPECT index managed by the Warsaw Stock Exchange. The Company has been appreciated for its engagement in applying corporate social responsibility principles and having highest standards in corporate governance, corporate disclosure discipline, and investor relations, as well as environmental, social, and employee matters. Having passed the three-step verification by the WSE, SEG (Polish Association of Listed Companies), and Deloitte, on January 24th 2013, the Company was for the seventh time included in the elite group of 20 companies covered by the RESPECT Index.

10.2. Nature and degree of Company’s non-compliance with the corporate governance principles

Since the floatation of its shares on the WSE in 2008, the Company’s aim has been to observe best corporate governance practices, which was expressed in the declaration of the Company’s Management Board contained in the 2008 IPO Prospectus and the 2011 Issue Prospectus.

Following amendments to the document “Best Practices for Companies Listed on the WSE” (the “Document”), effected by way of Resolution No. 19/1307/2012 of November 21st 2012 of the WSE Supervisory Board, the Company’s Management Board adopted the updated Document with effect as of January 1st 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, the way General Meetings have been documented and carried out to date ensures transparency and safeguards the rights of all shareholders. Further, information on passed resolutions is published by the Company in the form of current reports, also on its website. Therefore investors are able to review the matters discussed at General Meetings. The Company may apply 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 for an option for shareholders to participate in General Meetings using electronic communications. The large number of shareholders may cause difficulties in ensuring seamless, simultaneous and equal participation of all shareholders in General Meetings. Given the high free float, difficulties may also arise in terms of information security. However, the Company may apply this rule in the future.
Incidental violations of the Code of Best Practice for WSE Listed Companies.

On April 17th 2013, the following incidental violations of the Code of Best Practice for WSE Listed Companies occurred during the Company’s Annual General Meeting:

- Principle No. 3 under section III of the Code of Best Practice for WSE Listed Companies, which states that Supervisory Board members should participate in the General Meeting in such number as enables responses to be given to questions asked during the General Meeting. For reasons not attributable to the Company’s Management Board, none of the Supervisory Board members attended the Annual General Meeting on April 17th 2013.

- The Company’s Management Board undertook towards shareholders present at the Annual General Meeting to recommend to members of the newly appointed Supervisory Board that they take actions ensuring compliance with the Code of Best Practice for WSE Listed Companies as above;

- Principle No. 5 under section IV of the Code of Best Practice for WSE Listed Companies, which states that General Meeting resolutions should ensure observance of a necessary delay between decisions giving rise to specific corporate actions and the dates on which shareholder rights under such corporate actions are established. Passed on April 17th 2013, resolution No. 6 on distribution of net profit for 2012 establishes the ex-dividend date, as of which the list of shareholders entitled to receive dividend for 2012 is determined, to be April 22nd 2013. Choosing April 22nd 2013 as the ex-dividend date does not satisfy the requirements of the Polish NDS concerning dividend payments. The Polish NDS requires that information on the adopted ex-dividend date be disclosed no later five working days prior to such date.

- Principle No. 6 under section IV of the Code of Best Practice for WSE Listed Companies, which states that the ex-dividend date and the dividend payment date should be scheduled so that the period between the two dates is as short as possible, and in any case not longer than 15 business days. Passed on April 17th 2013, resolution No. 6 on distribution of net profit for 2012 establishes the dividend payment date as May 24th 2013, and therefore the period is longer than 15 business days.

As the decision on the ex-dividend date and the dividend payment date was taken by a Company governing body independent of the Management Board, the Management Board verified and confirmed the technical possibility to execute the resolution passed by the Annual General Meeting.

10.3. Internal control and risk management systems

In addition to the Company’s risk management guidelines set out in the Market Risk Management Policy, defining the currency, interest rate, price and credit risk management policies, the Company also undertook to design the general rules for managing risks in its various operational areas. Ultimately, the procedures and instructions of the Integrated Management System will form the framework of the system. The Company’s operational risks are identified and steps are taken to mitigate their adverse effect. Internal audits of its management systems are among the tools applied by the Company to assess measures taken to mitigate risks in individual processes carried out at the Company.
10.4. Shareholding structure

Shareholding structure as at March 6th 2013 (in accordance with the information provided in the annual report for 2012)

<table>
<thead>
<tr>
<th>Shareholder</th>
<th>Number of shares</th>
<th>% ownership interest</th>
<th>Voting rights</th>
<th>% of total voting rights</th>
</tr>
</thead>
<tbody>
<tr>
<td>State Treasury of Poland</td>
<td>44,764,617</td>
<td>45.13</td>
<td>44,764,617</td>
<td>45.13</td>
</tr>
<tr>
<td>ING OFE</td>
<td>9,883,323</td>
<td>9.96</td>
<td>9,883,323</td>
<td>9.96</td>
</tr>
<tr>
<td>Aviva OFE</td>
<td>6,397,643</td>
<td>6.45</td>
<td>6,397,643</td>
<td>6.45</td>
</tr>
<tr>
<td>Aviva BZ WBK</td>
<td>9,599,816</td>
<td>9.68</td>
<td>9,599,816</td>
<td>9.68</td>
</tr>
<tr>
<td>Total</td>
<td>99,195,484</td>
<td>100.00</td>
<td>99,195,484</td>
<td>100.00</td>
</tr>
</tbody>
</table>

including:

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

According to the list of persons entitled to participate in the Extraordinary General Meeting called for March 8th 2013, made available to the Company by the Polish NDS, Aviva Otwarty Fundusz Emerytalny Aviva BZ WBK registered 7,800,000 shares, which is equivalent to an increase in its interest in the Company's share capital to 7.86%.

Shareholding structure as at March 8th 2013

<table>
<thead>
<tr>
<th>Shareholder</th>
<th>Number of shares</th>
<th>% ownership interest</th>
<th>Voting rights</th>
<th>% of total voting rights</th>
</tr>
</thead>
<tbody>
<tr>
<td>State Treasury of Poland</td>
<td>44,764,617</td>
<td>45.13</td>
<td>44,764,617</td>
<td>45.13</td>
</tr>
<tr>
<td>ING OFE</td>
<td>9,883,323</td>
<td>9.96</td>
<td>9,883,323</td>
<td>9.96</td>
</tr>
<tr>
<td>Aviva OFE</td>
<td>7,800,000</td>
<td>7.86</td>
<td>7,800,000</td>
<td>7.86</td>
</tr>
<tr>
<td>Aviva BZ WBK</td>
<td>9,599,816</td>
<td>9.68</td>
<td>9,599,816</td>
<td>9.68</td>
</tr>
<tr>
<td>Norica Holding S.à.r.l and Cliffstone Holdings Limited</td>
<td>27,147,728</td>
<td>27.37</td>
<td>27,147,728</td>
<td>27.37</td>
</tr>
<tr>
<td>Other</td>
<td>99,195,484</td>
<td>100.00</td>
<td>99,195,484</td>
<td>100.00</td>
</tr>
</tbody>
</table>

On March 29th 2013 the Company's management board received a notification from Norica Holding S.à.r.l. of Luxembourg ("Norica") dated March 29th 2013, acting on its own behalf and as attorney for:
- TrustService Limited Liability Company of Veliky Novgorod, Russia ("TrustService"),
- JSC Acron of Veliky Novgorod, Russia ("Acron"),
- Subero Associates Inc. of Tortola, British Virgin Islands, a private limited company ("Subero"),
- Viatcheslav Kantor, a citizen of Israel.

According to the notification, as a result of a series of share purchase transactions executed on and outside of the regulated market on March 26th and March 27th 2013, Norica acquired 1,781,186 Company shares, representing 1.796% of its share capital and carrying 1,781,186 voting rights votes (approximately 1.796% of total voting rights) at its General Meeting.

Thus, Norica increased its share of total voting rights at the Company's General Meeting above the 10% threshold.

Prior to the execution of the transactions, Norica held 8,833,660 Company shares, representing 8.91% of its share capital and carrying 8,833,660 voting rights (8.91% of total voting rights) at its General Meeting.
Following settlement of the transactions, Norica holds 10,614,846 Company shares, representing 10.7% of its share capital and carrying 10,614,846 voting rights (10.7% of total voting rights) at its General Meeting.

Concurrently, following the settlement of the transactions:

- TrustService, Norica’s parent, indirectly exceeded the 10% threshold of total voting rights at the Company’s General Meeting through its subsidiary Norica, and holds 10,614,846 shares, representing 10.7% of its share capital and carrying 10,614,846 voting rights (10.7% of total voting rights) at the Company’s General Meeting.
- Acron, TrustService’s parent indirectly exceeded the 10% threshold of total voting rights at the Company’s General Meeting through its subsidiary Norica, and holds 10,614,846 shares, representing 10.7% of its share capital and carrying 10,614,846 voting rights (10.7% of total voting rights) at the Company’s General Meeting.
- Subero, Acron’s parent, indirectly exceeded the 10% threshold of total voting rights at the Company’s General Meeting through its subsidiaries Norica and Cliffstone Holdings Limited of Nicosia, Cyprus (“Cliffstone”) (Cliffstone holds 766,156 shares in the Company, representing 0.77% of its share capital and carrying 766,156 voting rights (0.77% of total voting rights) at the Company’s General Meeting), and holds 11,381,002 shares in the Company, representing 11.47% of its share capital and carrying 11,381,002 voting rights (11.47% of total voting rights) at the Company’s General Meeting.
- Viatcheslav Kantor, the owner of Subero, exceeded the 10% threshold of total voting rights at the Company’s General Meeting through Subero’s subsidiaries Norica and Cliffstone (subsidiaries of Subero, which is owned by Mr Kantor), and holds 11,381,002 shares in the Company, representing 11.47% of its share capital and carrying 11,381,002 voting rights (11.47% of total voting rights) at the Company’s General Meeting.

Viatcheslav Kantor notified the Company that aside from Norica and Cliffstone none of his subsidiaries held any Company shares.

Subero notified the Company that aside from Norica and Cliffstone none of its subsidiaries held any Company shares.

Acron notified the Company that aside from Norica none of its subsidiaries held any Company shares.

TrustService notified the Company that aside from Norica none of its subsidiaries held any Company shares.

Noricah informed the Company that none of its subsidiaries held any Company shares.

Furthermore, Viatcheslav Kantor, Subero, Norica, Acron and TrustService notified the Company that there were no persons such as those referred to in art. 87.1.3.c of the Public Offering Act.

It was also communicated that during the 12 months from receipt of Norica’s notification by the Company, Viatcheslav Kantor, Subero, Norica, Acron and TrustService may from time to time, directly or indirectly, acquire or sell Company shares.

### Shareholding structure as at March 29th 2013

<table>
<thead>
<tr>
<th>Shareholder</th>
<th>Number of shares</th>
<th>% ownership interest</th>
<th>Voting rights</th>
<th>% of total voting rights</th>
</tr>
</thead>
<tbody>
<tr>
<td>State Treasury of Poland</td>
<td>44,764,617</td>
<td>45.13</td>
<td>44,764,617</td>
<td>45.13</td>
</tr>
<tr>
<td>ING OFE</td>
<td>9,883,323</td>
<td>9.96</td>
<td>9,883,323</td>
<td>9.96</td>
</tr>
<tr>
<td>Aviva OFE</td>
<td>7,800,000</td>
<td>7.86</td>
<td>7,800,000</td>
<td>7.86</td>
</tr>
<tr>
<td>Aviva BZ WBK</td>
<td>11,381,002</td>
<td>11.47</td>
<td>11,381,002</td>
<td>11.47</td>
</tr>
<tr>
<td>Norica Holding S.à.r.l with Cliffstone Holdings Limited</td>
<td>25,366,542</td>
<td>25.58</td>
<td>25,366,542</td>
<td>25.58</td>
</tr>
<tr>
<td>Total</td>
<td>99,195,484</td>
<td>100.00</td>
<td>99,195,484</td>
<td>100.00</td>
</tr>
</tbody>
</table>
On April 18th 2013 the Company's Management Board received a notification from Norica, acting on its own behalf and as attorney for Subero and Viatcheslav Kantor, showing that on April 15th 2013 Norica acquired 1,670,000 shares in the Company in transactions outside the regulated market, representing ca. 1.684% of its share capital and carrying 1,670,000 voting rights (1.684% of total voting rights) at the Company's General Meeting. Therefore, the persons and entities indirectly controlling Norica, i.e. Subero and Viatcheslav Kantor, increased their share of total voting rights at the Company's General Meeting to above 15%.

### Shareholding structure as at April 19th 2013

<table>
<thead>
<tr>
<th>Shareholder</th>
<th>Shares</th>
<th>Ownership interest (%)</th>
<th>Voting rights</th>
<th>% of voting rights</th>
</tr>
</thead>
<tbody>
<tr>
<td>State Treasury of Poland</td>
<td>44,764,617</td>
<td>45.13</td>
<td>44,764,617</td>
<td>45.13</td>
</tr>
<tr>
<td>Norica Holding S.à.r.l and Cliffstone Holdings Limited</td>
<td>15,216,094</td>
<td>15.34</td>
<td>15,216,094</td>
<td>15.34</td>
</tr>
<tr>
<td>ING Pension Fund</td>
<td>9,883,323</td>
<td>9.96</td>
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</tr>
<tr>
<td>Aviva OFE</td>
<td>7,800,000</td>
<td>7.86</td>
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</tr>
<tr>
<td>Aviva BZ WBK</td>
<td>21,531,450</td>
<td>21.71</td>
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</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>99,195,484</strong></td>
<td><strong>100.00</strong></td>
<td><strong>99,195,484</strong></td>
<td><strong>100.00</strong></td>
</tr>
</tbody>
</table>

On April 18th 2013, the Company’s Management Board became aware of the announcements by the Ministry of State Treasury and the European Bank for Reconstruction and Development (EBRD) on the State Treasury’s decision to sell a block of shares in the Company, corresponding to 12.13% of its outstanding shares and of total voting rights at the General Meeting, in an accelerated bookbuilding transaction. Also, the EBRD announced acquisition of Company shares representing 5.75% of its share capital and of total voting rights at the Company’s General Meeting, for a total price of PLN 296.4m (EUR 72.1m). The shares were acquired in an accelerated bookbuilding transaction. The EBRD also agreed to a 12-month lock-up and gave the State Treasury pre-emptive rights over the shares acquired in the Company.

### Shareholding structure as at April 24th 2013

<table>
<thead>
<tr>
<th>Shareholder</th>
<th>Shares</th>
<th>Ownership interest (%)</th>
<th>Voting rights</th>
<th>% of voting rights</th>
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</thead>
<tbody>
<tr>
<td>State Treasury of Poland</td>
<td>32,734,509</td>
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<tr>
<td>Aviva BZ WBK</td>
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<td>5.75</td>
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<tr>
<td>EBRD</td>
<td>19,171,967</td>
<td>19.33</td>
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On April 24th 2013, the Company’s Management Board was informed by the Ministry of State Treasury that on April 18th and April 19th 2013 the State Treasury sold shares in the Company, thereby reducing its share of total voting rights at the Company’s General Meeting to less than 33%. The shares were sold in a block transaction. The transaction was settled on April 23rd 2013. As a result of the transaction, the State Treasury sold 12,030,108 shares in the Company and as at the date of the notification held 32,734,509 shares carrying the corresponding number of voting rights at the Company's General Meeting and representing 32.99999927% of the Company's share capital and total voting rights.

Also on April 24th 2013 Towarzystwo Funduszy Inwestycyjnych PZU S.A., acting for and on behalf of managed investment funds:
- PZU Fundusz Inwestycyjny Otwarty Parasolowy,
PZU Specjalistyczny Fundusz Inwestycyjny Otwarty Globalnych Inwestycji,
- PZU Fundusz Inwestycyjny Zamknięty Akcji,
- PZU Fundusz Inwestycyjny Zamknięty Aktywów Niepublicznych BIS 2,
announced that, following its purchase of 4,950,000 shares in the Company on April 18th 2013, Towarzystwo Funduszy Inwestycyjnych PZU S.A.'s share of total voting rights at the Company's General Meeting exceeded 5%.

Shares held prior to the change in shareholding: 3,739,591
% ownership interest: 3.77%
Voting rights: 3,739,591
% share of total voting rights: 3.77%

Shares held following the change in shareholding: 8,689,591
% ownership interest: 8.76%
Voting rights: 8,689,591
% share of total voting rights: 8.76%

The Company was also notified that Towarzystwo Funduszy Inwestycyjnych PZU S.A., acting in its capacity as fund manager, may exercise voting rights at the Company's General Meeting on behalf of TFI PZU funds.

The table below presents the Company's shareholding structure according to the information received before April 29th 2013 with regard to shareholders holding, directly or indirectly, at least 5% of total voting rights at the Company's General Meeting.

<table>
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<tr>
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On June 13th 2013, the Company's Management Board received a notice from Norca, acting in its own name and on behalf of:
- JSC Acron, a joint stock company of Veliky Novgorod, Russia, and
- TrustService Limited Liability Company of Veliky Novgorod, Russia, and
- Subero Associates Inc., a private limited liability company of Tortola, British Virgin Islands,
- Viatcheslav Kantor, a citizen of Israel.

In the notice, the Company was informed that an intra-group OTC transaction in the Company shares (the “Transaction”) was executed on June 10th 2013, as a result of which Norica acquired 766,156 Company shares from Cliffstone Holdings Limited (Cliffstone Holdings Limited belongs to the same group as Norica), representing approximately 0.77% of the Company's total shares and carrying 766,156 voting rights, i.e. approximately 0.77% of total voting rights at the Company's General Meeting. As a result, Norica and TrustService, which controls Norica directly, and Acron, which controls Norica indirectly, increased their voting rights at the Company's General Meeting above the 15% threshold.

Furthermore, Norica, Acron, TrustService, Subero, and Viatcheslav Kantor notified the Company that the total number of shares held by the group controlling the above entities, i.e. Norica, Acron, TrustService, Subero, and Viatcheslav Kantor, did not change and was 15,216,094 shares, representing approximately 15.34% of the Company's share capital and carrying 15,216,094 voting...
rights (approximately 15.34% of total voting rights at the General Meeting) (Current Report No. 73/2013 of April 19th 2013).

Currently, all Company shares held by Norica, Acron, TrustService, Subero, and Viatcheslav Kantor belong directly to Norica.

As a result of the Transaction:

- Norica holds directly 15,216,094 Company shares, representing approximately 15.34% of its share capital and carrying 15,216,094 voting rights at its General Meeting (approximately 15.34% of total voting rights).
- TrustService, as a company directly controlling Norica, and Acron, as a company indirectly controlling Norica, indirectly hold 15,216,094 Company shares, representing approximately 15.34% of its share capital and carrying 15,216,094 voting rights at its General Meeting (approximately 15.34% of total voting rights).

Prior to the Transaction:

- Norica held directly 14,449,938 Company shares, representing approximately 14.567% of its share capital and carrying 14,449,938 voting rights at its General Meeting (approximately 14.567% of total voting rights).
- TrustService, as a company directly controlling Norica, and Acron, as a company indirectly controlling Norica, held indirectly 14,449,938 Company shares, representing approximately 14.567% of its share capital and carrying 14,449,938 voting rights at its General Meeting (approximately 14.567% of total voting rights).

Norica also informed the Company that none of its subsidiaries held any Company shares.

Acron informed the Company that aside from Norica none of its subsidiaries held any Company shares.

TrustService informed the Company that aside from Norica none of its subsidiaries held any Company shares.

Each of Norica, Acron and TrustService separately informed the Company that there were no persons such as those referred to in Art. 87.1.3.c of the Public Offering Act.

Norica, Acron, TrustService, Subero, and Viatcheslav Kantor also informed the Company that, within the next 12 months, they may dispose of or acquire, either directly or indirectly, shares in the Company, which will depend on market and financial conditions and other important factors.

### Shareholding Structure as at June 14th 2013

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<tr>
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</tr>
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As of June 14th 2013 and until the date of these financial statements, the Company was not informed of any changes in the ownership of any significant holdings of shares.

### 10.5. Special control powers of security holders

Pursuant to Art. 16.2 of the Company’s Articles of Association, the State Treasury of Poland, as a shareholder, has an individual right to appoint and remove one member of the Supervisory Board. Furthermore, in accordance with Art. 43.1.3 and 43.1.4 of the Company’s Articles of Association, the General Meeting is convened by the Management Board:

- at the request of a shareholder or shareholders representing at least one-twentieth of the share capital, submitted in writing or in electronic form at least one month before the proposed date of the General Meeting,
• at the request of the State Treasury as a shareholder, irrespective of its stake in the Company’s share capital, submitted in writing at least one month before the proposed date of the General Meeting.

Pursuant to Art. 45.4 of the Company’s Articles of Association governing the placing of matters on the agenda of the next General Meeting by the shareholders, “a shareholder or shareholders representing at least one-twentieth of the Company’s share capital may request that certain matters be placed on the agenda of the next General Meeting. The same right is held by the State Treasury as the Company’s shareholder, irrespective of its stake in the share capital.”

Pursuant to Art. 45.8 of the Company’s Articles of Association, “prior to the date of the General Meeting, a shareholder or shareholders representing at least one-twentieth of the Company’s share capital may submit to the Company draft resolutions on the matters included or to be included in the agenda of the General Meeting, in writing or with the use of electronic means of communication. The Company promptly publishes such draft resolutions on its website.”

10.6. Restrictions on voting rights

In accordance with Art. 47.2 of the Company’s Articles of Association, one share carries one vote at the General Meeting.

On December 22nd 2010, the Company’s Extraordinary General Meeting adopted Resolution No. 4 to amend the Articles of Association by changing the individual rights of certain shareholders through adding paragraph 3 in Art. 47, reading as follows:

Art. 47.3 of the Articles of Association: “As long as the State Treasury or Nafta Polska S.A. owns shares in the Company representing at least one-fifth of total voting rights at the Company, shareholders’ voting rights shall be limited so that at the General Meeting no one shareholder may exercise more than one-fifth of total voting rights at the Company as at the date of the General Meeting. The limitation on the voting rights referred to in the preceding sentence shall not apply to the State Treasury and Nafta Polska S.A. or any of their respective subsidiaries. For the purposes of this Art. 47.3, the exercise of voting rights by a subsidiary shall be deemed the exercise of voting rights by its parent as defined in the Act on Public Offering, Conditions Governing the Introduction of Financial Instruments to Organised Trading, and Public Companies of July 29th 2005 (the “Public Offering Act”), and the terms “parent” and “subsidiary” shall include any entity whose voting rights attached to shares held, directly or indirectly, in the Company are aggregated with the voting rights of another entity or entities, in accordance with the Public Offering Act, in connection with the holding, disposal or acquisition of major holdings in the Company. A shareholder whose voting rights are subject to the limitation shall in any case retain the right to cast at least one vote.”

10.7. Restrictions on the transferability of the Company securities

There are no restrictions on the transferability of the Company securities.
10.8. Rules governing appointment and removal of the Company's management staff; powers of the management staff, including in particular the authority to resolve to issue or buy back shares

Rules governing appointment and removal of the Company's management staff

Management Board

Pursuant to Art. 24 of the Company's Articles of Association, any or all members of the Management Board are appointed and removed by the Supervisory Board, subject to the provisions of Art. 25 et seq. of the Articles of Association.

Any member of the Management Board may be removed or suspended from duties by the Supervisory Board or the General Meeting. (Art. 24.2 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 Management Board's term of office (Art. 25.1 of the Company's Articles of Association).

The Supervisory Board has the capacity to remove and suspend from duties any or all members of the Management Board, for a good reason, and to delegate members of the Supervisory Board to temporarily perform the duties of members of the Management Board who are unable to do so (Art. 33.1 of the Company's Articles of Association).

Supervisory Board

Pursuant to Art. 35.1 of the Company's Articles of Association, the Supervisory Board is composed of 5 to 9 members, appointed by the General Meeting, subject to the provisions of Art. 16.2 (“The State Treasury has an individual right to appoint and remove one member of the Supervisory Board.”) and Art. 36 of the Articles of Association (“Part of the Supervisory Board members shall be members elected by Company employees pursuant to Art. 14 of the Act on Commercialisation and Privatisation”).

Members of the Supervisory Board are appointed for a joint three-year term of office. At least two members of the Supervisory Board should be independent members that meet the independence criteria set out in Annex II to the Commission Recommendation on the role of non-executive or supervisory directors (Art. 35.4 of the Company's Articles of Association).

The General Meeting appoints the Chairperson of the Supervisory Board. The Deputy Chairperson and the Secretary are elected by the Supervisory Board, at its first meeting, from among its members (Art. 37.1 of the Company's Articles of Association).

Power to make decisions to issue or buy back shares

Pursuant to Art. 10.1 of the Company's Articles of Association, the Company's share capital may be increased by way of a resolution of the General Meeting by issuing new shares or increasing the value of existing shares. Pursuant to Art. 10.3 of the Articles of Association:

“3. The Management Board is authorised to increase the Company’s share capital by issuing new shares with a total par value of up to PLN 240,432,915, by way of an increase in the share capital within the limits defined above (“Authorised Share Capital”). An increase in the share capital within the limits of the Authorised Share Capital may be effected only for the purpose and on the terms and conditions stipulated in Art 10.4 4 below. The Management Board’s authorisation to increase the share capital and to issue new shares within the limits of the Authorised Share Capital shall expire within six months from the date of registration of amendments to the Articles of Association stipulating the Authorised Share Capital.

4. Within the limits of the Authorised Share Capital, the Management Board shall be authorised to offer Company shares, with the existing shareholders' pre-emptive rights waived, only to the shareholders of Zakład Azotowe Pulawy S.A. of Pulawy, entered into the Register of Entrepreneurs of the National Court Register under entry No. KRS 0000011737 ("ZA Pulawy"), in exchange for a non-cash contribution in the form of shares in ZA PULAWY, so that one share in ZA PULAWY shall be deemed a non-cash contribution to cover 2.5 Company shares issued within the limits of the Authorised Share Capital. A Management Board's resolution to issue shares in exchange for a non-cash contribution in the form of shares in ZA PULAWY shall not require approval by the Supervisory Board.

5. In the Company's interest the Management Board is authorised to waive, in whole or in part, the existing shareholders' pre-emptive rights to acquire shares issued within the limits of the
Authorised Share Capital only to offer such shares to the shareholders of ZA PULAWY in accordance with the rules described in Art. 10.4 above.

6. Unless stipulated otherwise in Art. 10.7 or in the Commercial Companies Code, the Management Board shall decide on all matters connected with a share capital increase within the limits of the Authorised Share Capital; in particular the Management Board is authorised to:

1) enter into agreements providing for the arrangement and the carrying out of a share issue,
2) adopt resolutions and take other actions regarding conversion of the shares and allotment certificates into book-entry form as well as to enter into agreements with the Polish NDS on the registration of the shares and allotment certificates,
3) adopt resolutions and take other actions regarding the issue of shares by way of a public offering or seeking admission of the shares and allotment certificates to trading on the regulated market, as the case may be.

7. A Management Board resolution on:

1) share capital increase within the limits of the Authorised Share Capital,
2) determination of the issue price for shares issued within the limits of the Authorised Share Capital, and
3) waiver of pre-emptive rights,
shall require approval by the Supervisory Board.

10.9. Rules governing amendments to the Company’s Articles of Association

Pursuant to Art. 51.22 of the Company’s Articles of Association, the General Meeting has exclusive authority to amend the Company’s Articles of Association or change the Company’s business profile.

10.10. Operation of the General Meeting

The General Meeting is convened and prepared in accordance with the Commercial Companies Code, the Company’s Articles of Association and the Rules of Procedure for the General Meeting. The Rules of Procedure for the General Meeting, adopted by way of a resolution of the General Meeting of June 26th 2009, define the rules for holding the meetings.

The powers of the General Meeting are defined in the Commercial Companies Code and Art. 51 of the Company’s Articles of Association.

In particular, the General Meeting has the authority to:

- review and approve the Directors’ Report on the Company’s operations, the financial statements for the previous financial year, the consolidated financial statements and the Directors’ Report on the Group’s operations, if prepared by the Company, as well as the annual report of the Supervisory Board, and to grant discharge to members of the Company’s governing bodies in respect of their duties,
- adopt resolutions on distribution of profit or coverage of loss,
- adopt the Rules of Procedure for the General Meeting,
- amend the Company’s Articles of Association,
- change the Company’s business profile,
- approve the disposal or lease of, or creation of limited property rights in, the Company’s business or its organised part,
- appoint and remove members of the Supervisory Board (subject to Art.16.2 and Art. 36 of the Articles of Association), and determine the remuneration amounts for members of the Supervisory Board,
- increase or decrease the Company’s share capital,
- adopt resolutions on issue of notes, including notes convertible into shares,
- merge, demerge and transform the Company,
- dissolve and liquidate the Company,
- approve buyback of Company shares for retirement and define the conditions for share retirement,
- adopt other resolutions as provided for in applicable laws or the Articles of Association.
Shareholder rights and execution thereof
Shareholder rights are defined in detail in the Code of Commercial Companies, the Act on Trading in Financial Instruments, the Public Offering Act and the Company’s Articles of Association (Art. 14-16 - Shareholder rights and obligations).

10.11. Composition and operation of the Company’s management and supervisory bodies

Management Board
Composition of the Company’s Management Board of the 9th term as at January 1st 2013:
- Jerzy Marciniak - President of the Management Board, Managing Director,
- Andrzej Skolmowski - Vice-President of the Management Board, responsible for finance and trade at the Grupa Azoty Group,
- Krzysztof Jalościński - Vice-President of the Management Board, responsible for strategy and development at the Grupa Azoty Group,
- Witold Szczypiński - Vice-President of the Management Board, responsible for production and safety at the Grupa Azoty Group,
- Artur Kopeć - Member of the Management Board elected by employees.

On April 29th 2013, the Supervisory Board:
- removed Jerzy Marciniak, President of the Management Board, from the Management Board; the resolution entered into force on the date of its adoption;
- appointed Paweł Jarczewski to join the five-person Management Board as President; the resolution entered into force on May 6th 2013.

On April 30th 2013, Paweł Jarczewski resigned as President of the Management Board of Grupa Azoty PUŁAWY with effect from May 5th 2013, the reason being his appointment as President of the Company Management Board.

On July 4th 2013, the Supervisory Board appointed Marek Kapłucha and Marian Rybak to the Company Management Board with effect from the resolution date. This decision was made in performance of the consolidation agreement between the Company and Grupa Azoty PUŁAWY, executed in November 2012.

On June 27th 2013, the Management Board adopted the Rules of Procedure for the Grupa Azoty S.A. Management Board (approved by the Supervisory Board on August 14th 2013), and on August 20th 2013 a resolution on the division of authority between the Management Board members.

As at December 31st 2013, the composition of the Management Board and the scopes of powers and responsibilities of its members were as follows:
- Paweł Jarczewski - President of the Management Board,
- Andrzej Skolmowski - Vice-President of the Management Board, responsible for finance and IT at the Grupa Azoty Group,
- Witold Szczypiński - Vice-President of the Management Board, responsible for integration of production processes, plastics and organic synthesis at the Grupa Azoty Group,
- Marek Kapłucha - Vice-President of the Management Board, responsible for supply chain management at the Grupa Azoty Group,
- Marian Rybak - Vice-President of the Management Board, responsible for investments at the Grupa Azoty Group,
- Krzysztof Jalościński - Vice-President of the Management Board, responsible for strategy and development at the Grupa Azoty Group,
- Artur Kopeć - Member of the Management Board, responsible for social dialogue, technical safety and environmental protection at the Grupa Azoty Group.

The Company’s Management Board operates on the basis of:
- the Commercial Companies Code,
- the Act on Commercialisation and Privatisation of August 30th 1996, as amended,
- the Act on Public Offering, Conditions Governing the Introduction of Financial Instruments to Organised Trading, and Public Companies of July 29th 2005,
- the Act on Trading in Financial Instruments of July 29th 2005,
- and secondary legislation issued on the basis of the above acts,
- provisions of the Company’s Articles of Association.
Powers and responsibilities of the Management Board members
For detailed information on the division of authority among members of the Management Board, as per Resolution No. 467/IX/2013 of August 20th 2013, see p. 101 of the Grupa Azoty Group’s consolidated report for H1 2013.

Supervisory Board
As 2012 was the last full year of the Supervisory Board’s 8th term, the Supervisory Board:
• pursuant to Resolution No. 207/VIII/2013 of February 6th 2013 - approved the “Rules for Election of Supervisory Board Candidates and Removal of Supervisory Board Members Elected by the Employees of Zakłady Azotowe w Tarnowie-Mościcach S.A.,
• pursuant to Resolution No. 213/VIII/2013 of February 22nd 2013 - appointed a Central Election Committee and ordered election to be held within one month from the effective date of the Resolution.

Six candidates stood in the election (under Art. 14 of the Act on Commercialisation and Privatisation, employees have the right to elect three supervisory board members in a supervisory board composed of 7 to 10 members). The voting took place on March 19th-29th 2013, and resulted in the election of only one candidate for the position of member of the Supervisory Board of the 9th term elected by the employees, since only one person received the required number of votes, namely:
• Tomasz Klikowicz.

The Election Committee ordered a second round of the election, which took place on April 8th-18th 2013. As a result, two candidates were elected:
• Robert Kapka and
• Zbigniew Paprocki.

On the basis of the voting record presented by the Central Election Committee, on April 25th 2013 the Supervisory Board resolved to approve the election results and the candidates, and requested that the General Meeting appoint the candidates to the Supervisory Board. On June 3rd 2013, the Company’s Extraordinary General Meeting appointed three newly-elected employee representatives to the Supervisory Board of the 9th term.

On April 17th 2013, by way of resolutions of the Ordinary General Meeting, the members of the Supervisory Board of the 8th term were granted discharge in respect of their duties, and simultaneously, the Chairperson and members of the Supervisory Board of the 9th term were appointed. Monika Kacprzyk-Wojdyga was appointed Chairperson of the Supervisory Board. She had served as Chairperson during the preceding term.

Acting pursuant to Art. 16.2 of the Company’s Articles of Association, by virtue of the letter of April 16th 2013, received by the Company’s Management Board on April 17th 2013, the Minister of State Treasury appointed Ewa Lis to the Supervisory Board of the 9th term, with effect from April 17th 2013.

Composition of the Supervisory Board as at the date of issue of this Report was as follows:
• Monika Kacprzyk-Wojdyga - Chairwoman of the Supervisory Board,
• Jacek Oblekowski - Vice-Chairman,
• Ewa Lis - Secretary,
• Robert Kapka - Member,
• Tomasz Klikowicz - Member,
• Artur Kucharski - Member,
• Marek Mroczkowski - Member,
• Zbigniew Paprocki - Member,
• Ryszard Trepczyński - Member.

The Supervisory Board operates on the basis of:
• the Commercial Companies Code of September 15th 2000 (Dz.U. No. 94, item 1037, as amended),
• the Act on Commercialisation and Privatisation (...),
• the Accountancy Act,
• the Company’s Articles of Association (Art. 32 et seq.),
• Rules of Procedure for the Company’s Supervisory Board.
In 2011, the Supervisory Board appointed an Audit Committee in order to streamline its work and improve control of the Company and the Group. The Audit Committee, which is an advisory body acting collectively within the structure of the Supervisory Board, consists of:

- Jacek Oblękowski - Chairperson,
- Marek Mroczkowski,
- Tomasz Klikowicz.

The Audit Committee's tasks include in particular:

- monitoring of the financial reporting process,
- monitoring of the effectiveness of internal control systems,
- monitoring of financial audit,
- monitoring of the independence of the auditor and the entity qualified to audit financial statements.

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

Signatures of the Supervisory Board members

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Paweł Jarczewski                          Andrzej Skolmowski
President of the Management Board        Vice-President of the Management Board

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Witold Szczypiński                       Marek Kapłucha
Vice-President of the Management Board   Vice-President of the Management Board

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Marian Rybak                             Krzysztof Jalosiński
Vice-President of the Management Board   Vice-President of the Management Board

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Artur Kopeć                              Member of the Management Board

Tarnów, March 12th 2014