Directors’ Report
on the Operations of the Grupa Azoty Group
for the 12 months ended
December 31st 2013
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1. General information on the Grupa Azoty Group

1.1. Organisational structure

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

Parent

The Parent 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, dated 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 business comprises the manufacture of basic chemicals, fertilizers and nitrogen compounds, plastics and synthetic rubber in primary forms (PKD 20.1).

Group subsidiaries

Grupa Azoty Zakłady Azotowe Puławy Spółka Akcyjna

The company was entered into the Register of Entrepreneurs of the National Court Register maintained by the District Court for Lublin-Wschód in Lublin, with its seat in Świdnik, 6th Commercial Division of the National Court Register, under entry No. KRS 0000011737, on May 11th 2001. The company has its registered office in Puławy, at Al. Tysiąclecia Państwa Polskiego 13. Since April 4th 2013, the company has been trading under its new name Grupa Azoty Zakłady Azotowe Puławy Spółka Akcyjna (abbreviated to Grupa Azoty Zakłady Azotowe Puławy S.A.).

The company’s core business comprises the manufacture of basic chemicals, fertilizers and nitrogen compounds, plastics and synthetic rubber in primary forms (PKD 20.1).

Grupa Azoty Zakłady Azotowe Kędzierzyn Spółka Akcyjna

The company was entered into the Register of Entrepreneurs of the National Court Register maintained by the District Court in Opole, 8th Commercial Division of the National Court Register, under entry No. KRS 0000008993. The company has its registered office in Kędzierzyn-Koźle, at ul. Mostowa 30A. Since January 11th 2013, it has been trading under its new name Grupa Azoty Zakłady Azotowe Kędzierzyn Spółka Akcyjna (abbreviated to Grupa Azoty Zakłady Azotowe Kędzierzyn S.A.).

The company’s core business is in the manufacture of fertilizers and nitrogen compounds, organic and non-organic chemicals and other chemical products (PKD 20.14 Z).

Grupa Azoty Zakłady Chemiczne Police Spółka Akcyjna

The company was entered into the Register of Entrepreneurs of the National Court Register maintained by the District Court for Szczecin-Centrum, 13th Commercial Division of the National Court Register, under entry No. KRS 0000008993. The company has its registered office in Police, at ul. Mostowa 30A. Since January 11th 2013, it has been trading under its new name Grupa Azoty Zakłady Chemiczne Police Spółka Akcyjna (abbreviated to Grupa Azoty Zakłady Chemiczne Police S.A.).

The company’s core business comprises the manufacture of basic chemicals, fertilizers and nitrogen compounds, plastics and synthetic rubber in primary forms (PKD 20.1).

Grupa Azoty Group
Court Register, under entry No. 0000015501, on May 29th 2001. The company has its registered office in Police, at ul. Kuźnicka 1. Since June 3rd 2013, the company has been trading under its new name Grupa Azoty Zakłady Chemiczne Police Spółka Akcyjna (abbreviated to Grupa Azoty Zakłady Chemiczne Police S.A.).

The company's core business is in the manufacture of fertilizers and nitrogen compounds (PKD 20.15 Z), and the manufacture of dyes and pigments (PKD 20.12 Z). Its supplementary operations comprise the manufacture of other inorganic basic chemicals (PKD 20.13 Z) and the manufacture of other chemical products not elsewhere classified (PKD 20.59 Z).

Grupa Azoty ATT Polymers GmbH
The company was entered into the Commercial Register of the District Court in Cottbus, Germany, under entry No. HRB 7461 CB, on February 2nd 2006. Since January 27th 2010, the Parent has been the sole shareholder in the company.

The company's share capital amounts to EUR 9,000 thousand (paid up in full).

Since July 10th 2013, the company has been trading under its new name Grupa Azoty ATT Polymers GmbH. Its business consists in the manufacture of and trade in plastics (polymers), their intermediates and derivatives.

Grupa Azoty Polskie Konsorcjum Chemiczne Spółka z ograniczoną odpowiedzialnością
The company was entered into the National Court Register under entry No. KRS 0000319998, on December 23rd 2008, by the District Court for the Capital City of Warsaw in Warsaw, 13th Commercial Division of the National Court Register. Currently, its registered office is located in Tarnów, at ul. Kwiatkowskiego 7.
Since February 28th 2013, the company has been trading under its new name Grupa Azoty Polskie Konsorcjum Chemiczne Spółka z ograniczoną odpowiedzialnością (abbreviated to Grupa Azoty Polskie Konsorcjum Chemiczne Sp. z o.o. or Grupa Azoty PKCh Sp. z o.o.).

Grupa Azoty PKCh Sp. z o.o.'s business comprises engineering activities and related technical consultancy (PKD 71.12 Z).

Grupa Azoty Koltar Spółka z ograniczoną odpowiedzialnością
The company was entered into the National Court Register under entry No. KRS 0000206663, on May 12th 2004, by the District Court for Kraków-Śródmieście in Kraków, 12th Commercial Division of the National Court Register. Its registered office is located in Tarnów, at ul. E. Kwiatkowskiego 8.
Since March 6th 2013, the company has been trading under its new name Grupa Azoty Koltar Spółka z ograniczoną odpowiedzialnością (abbreviated to Grupa Azoty Koltar Sp. z o.o.).

Its business comprises freight forwarding related to dispatch and acceptance of rail freight shipments, cargo handling, cleaning and inspection of tanks and wagons, trade, and maintenance of railway lines supporting an on-site railway station (PKD 49.20 Z).

Grupa Azoty Kopalnie i Zakłady Chemiczne Siarki Siarkopol Spółka Akcyjna
The company was registered on January 1st 1997. Its registered office is located in Grzybów. The company was entered into the National Court Register under entry No. KRS 0000185170, on December 29th 2003, by the District Court in Kielce, 10th Commercial Division of the National Court Register.

Since February 11th 2014, it has been trading under its new name Grupa Azoty Kopalnie i Zakłady Chemiczne Siarki Siarkopol Spółka Akcyjna (abbreviated to Grupa Azoty Kopalnie i Zakłady Chemiczne Siarki Siarkopol S.A.).

Its core business is in the mining of minerals for the chemical industry and fertilizer production (PKD 08.91 Z), manufacture of other basic inorganic chemicals, manufacture of basic organic chemicals and wholesale of chemicals.

Associate

Navitrans Sp. z o. o.
The company was registered on June 30th 1992. Its registered office is located in Gdynia, at ul. Świętojańska 18/5. The company was entered into the National Court Register under entry No. KRS 0000062936, on November 20th 2001, by the District Court for Gdańsk-Północ, 8th Commercial Division of the National Court Register.

Its business comprises other transport agency activities (PKD 52.29 C).
Parent’s shareholdings in subsidiaries 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 PULAWY</td>
<td>Al. Tysiąclecia Państwa Polskiego 13 24-110 Puławy, 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>ul. Kuźnicka 1 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>
</tbody>
</table>

**Associates**

<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>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>
Grupa Azoty Group
Parent’s non-controlling interests as at December 31st 2013

<table>
<thead>
<tr>
<th>Company</th>
<th>Ownership interest (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Centrum Naukowo-Produkcyjne Materialiów 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 Eksploatacji 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 by liquidation)</td>
<td>0.02%</td>
</tr>
<tr>
<td>Wytwórnia Silników</td>
<td></td>
</tr>
<tr>
<td>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 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. Following the share capital increase, the Parent’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 Parent 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.

1.2. Changes in the Group structure

Acquisition of shares in Grupa Azoty PULAWY

For a description of the successive stages of acquisition of Grupa Azoty PULAWY, 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 structure.

Formation of SCF Natural Sp. z o.o.

On January 24th 2013, Grupa Azoty PULAWY and the Fertilizer Research Institute of Puławy (Instytut Nawozów Sztucznych) incorporated a new company under the name of SCF Natural Sp. z o.o. The company was entered into the National Court Register on February 25th 2013. SCF Natural will focus on the production and marketing of hop granules and plant extracts for the food and
pharmaceutical industries. One of key areas of its operations will be the contracting, purchasing and processing of hops for domestic and international customers.

**Change in the status of Navitrans Sp. z o.o.**

The acquisition of shares in Grupa Azoty PULAWY by the Parent resulted in a change in the status of Navitrans Sp. z o.o. Previously an associate of Grupa Azoty, the company became an entity controlled by the Parent. In Navitrans Sp. z o.o., the Parent holds:
- directly – 26.45% of voting rights,
- indirectly, through Grupa Azoty PULAWY – 26.45% of voting rights,
- indirectly, through Bałtycka Baza Masowa Sp. z o.o., an associate of subsidiary Grupa Azoty PULAWY – 13.22% of voting rights.

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

On August 28th 2013, Grupa Azoty POLICE acquired 55% of shares in African Investment Group S.A. ("AIG S.A.") of Almadies, Senegal, holding a licence for exploration for ilmenite sand deposits (titanium bearing sands) and a permit for exploration for calcium phosphate deposits. The share purchase agreement provides for the payment to be made in three tranches. The first tranche of USD 3m was paid on the agreement execution date. The second tranche of USD 19m will be divided into two payments, the first to be made after a mining licence for Lam Lam, a small mine, is issued, and after the first 100 thousand tonnes of phosphate rock are produced and sold to Grupa Azoty POLICE. The other payment in the second tranche will be made following sale of another 200 thousand tonnes of phosphate rock to Grupa Azoty POLICE. The third tranche of USD 6.85m will be paid after the final exploration licence for the Kebemer field is issued and another 100 thousand tonnes of phosphate rock are delivered to Grupa Azoty POLICE. The total value of the transaction is USD 28.85m.

Grupa Azoty POLICE became a majority shareholder in AIG, having the power to control the decisions of AIG’s governing bodies, and will acquire rights to explore for and produce phosphate rock (deposits with an estimated volume of over 56m tonnes) and ilmenite (deposits with an estimated volume of over 1.5m tonnes). The actual size of the deposits is yet to be determined. The Management Board of Grupa Azoty POLICE declared that AIG’s financial standing was sound, and that the company was free of legal defects and carried no financial liabilities. Under the adopted business model, Grupa Azoty POLICE expects to save approximately PLN 30m on phosphate purchases in 2014. Thanks to cost savings, the transaction will also increase its capability to trade on global markets. Grupa Azoty POLICE is now considering the launch of phosphoric acid production in Senegal within the next few years.

On August 28th 2013, Grupa Azoty POLICE sold one share in AIG S.A. to a subsidiary. For more information on how the transaction was settled, 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 structure.

**Acquisition of Grupa Azoty SIARKOPOL**

On September 25th 2013, the Parent 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 under the agreement, on November 21st 2013. Approximately 25% of the aggregate share price was financed with the Parent’s own funds, with the balance sourced from a bank loan.

For more information on how the acquisition was settled, 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 structure.
Dissolution of Dom Wczasowy Jawor Sp. z o.o.
In response to a suit filed by Grupa Azoty PULAWY on July 26th 2012 for the dissolution of Dom Wczasowy Jawor Sp. z o.o. (“DW Jawor Sp. z o.o.”) of Ustroń-Jaszowiec, on February 18th 2013 a hearing was held at the Regional Court in Katowice, Commercial Division, which concluded with a ruling to dissolve DW Jawor Sp. z o.o. The ruling became final on March 11th 2013. The liquidator called on the company’s creditors to lodge their debt claims. The court ruling was entered into the National Court Register on May 23rd 2013.

Continued disposal of Grupa Azoty ZAK’s hotel assets
On May 21st 2013, the Extraordinary General Meeting passed a resolution to liquidate and dissolve Hotel Centralny Sp. z o.o., a company wholly-owned by Grupa Azoty ZAK S.A. On June 7th 2013, the official gazette Monitor Sądowy i Gospodarczy published the liquidator’s announcement on the opening of the liquidation proceedings, calling on the company’s creditors to lodge their debt claims within three months. On June 12th 2013, an entry concerning the liquidation of Hotel Centralny Sp. z o.o. was made in the National Court Register.

On August 1st 2013, an agreement was executed to sell shares in Hotel ORW Azoty Sp. z o.o. of Ustka. The transaction will not have a material effect on the Group’s financial statements.

Acquisition of shares in Regionalne Laboratorium Oceny Mleka Sp. z o.o. by Grupa Azoty JRCh Sp. z o.o.
On January 11th 2013, Grupa Azoty Jednostka Ratownictwa Chemicznego (a subsidiary of Grupa Azoty PKCh Sp. z o.o.) acquired 8 shares in Regionalne Laboratorium Oceny Mleka Sp. z o.o. from SM MLEKPOL Grajewo, thus becoming the sole owner of the company.

Acquisition of additional shares in Grupa Azoty Automatyka Sp. z o.o. by Grupa Azoty PKCh Sp. z o.o.
On June 18th 2013, Grupa Azoty PKCh Sp. z o.o. acquired further 62 shares in Grupa Azoty Automatyka Sp. z o.o., coming to hold 7,237 shares, representing 79.58% of the company’s share capital. Then, on October 16th 2013, it acquired additional 10 shares, increasing its holding to 7,247 shares, representing 79.69 % of the company’s share capital.

Transfer of a non-cash contribution to Agrochem Puławy Sp. z o.o.
On June 30th 2013, an organised part of GZNF Fosfory Sp. z o.o.’s business was transferred to Agrochem Puławy Sp. z o.o. (both subsidiaries of Grupa Azoty PULAWY) as a non-cash contribution in exchange for 95,550 newly created shares in Agrochem Puławy Sp. z o.o., valued at PLN 9,550 thousand.

Change of name of Grupa Azoty PULAWY’s subsidiary
On July 12th 2013, a change of company name from Azoty-Adipol S.A. to Zakłady Azotowe Chorzów Spółka Akcyjna was registered in the National Court Register.

Share capital increase at Grupa Azoty ZAK’s subsidiary
On August 6th 2013, the Extraordinary General Meeting of ZAKSA SA (a subsidiary of Grupa Azoty ZAK) resolved to increase the company’s share capital, to waive the existing shareholders’ pre-emptive rights to acquire new shares, and to amend the articles of association. The share capital was increased from PLN 1,000 thousand to PLN 6,000 thousand (i.e. by PLN 5,000 thousand) through the issue of 50,000 new registered shares with a value of PLN 100 per share. The shares will be fully paid for in cash. All of the newly issued shares will be acquired by Grupa Azoty ZAK S.A. through a private placement. As a consequence, Grupa Azoty ZAK S.A.’s ownership interest in ZAKSA will increase from 50% to 91.67%.
1.3. Organisational or equity ties between Grupa Azoty Group companies and other entities

Grupa Azoty Group companies’ interests in other entities as at December 31st 2013

<table>
<thead>
<tr>
<th>Company</th>
<th>Ownership interest (%)</th>
<th>Share capital</th>
</tr>
</thead>
<tbody>
<tr>
<td>Agrochem Sp. z o.o.</td>
<td>100.00 %</td>
<td>500</td>
</tr>
<tr>
<td>Agrochem Puławy Sp. z o.o.</td>
<td>100.00 %</td>
<td>32,534</td>
</tr>
<tr>
<td>SCF Natural Sp. z o.o.</td>
<td>99.99 %</td>
<td>15,001</td>
</tr>
<tr>
<td>Gdańskie Zakłady Nawozów Fosforowych</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Fosfory Sp. z o.o.</td>
<td>98.43 %</td>
<td>29,003</td>
</tr>
<tr>
<td>Przedsiębiorstwo Żywnienia Zbiorowego i Usług STO-ZAP Sp. z o.o.</td>
<td>96.15 %</td>
<td>1,117</td>
</tr>
<tr>
<td>Remzap Sp. z o.o.</td>
<td>94.61 %</td>
<td>1,812</td>
</tr>
<tr>
<td>Zakład Opieki Zdrowotnej Medical Sp. z o.o.</td>
<td>91.41 %</td>
<td>1,074</td>
</tr>
<tr>
<td>Zakłady Azotowe Chorzów S.A.</td>
<td>85.00 %</td>
<td>30,000</td>
</tr>
<tr>
<td>Prozap Sp. z o.o.</td>
<td>84.69 %</td>
<td>826</td>
</tr>
<tr>
<td>Bałtycka Baza Masowa Sp. z o.o.</td>
<td>50.00 %</td>
<td>19,500</td>
</tr>
<tr>
<td>Elektrownia Puławy Sp. z o.o.</td>
<td>50.00 %</td>
<td>22,148</td>
</tr>
<tr>
<td>CTL Kolzap Sp. z o.o.</td>
<td>49.00 %</td>
<td>2,000</td>
</tr>
<tr>
<td>Navitrans Sp. z o.o.</td>
<td>26.45 %</td>
<td>76</td>
</tr>
<tr>
<td>Technochimserwis S.A. (closely held company)</td>
<td>25.00 %</td>
<td>800 (roubles)</td>
</tr>
<tr>
<td>D.W. Jawor Sp. z o.o. w likwidacji (in liquidation)</td>
<td>99.96 %</td>
<td>3,759</td>
</tr>
</tbody>
</table>

The following companies were excluded from consolidation because of their immateriality:
- D.W. Jawor Sp. z o.o. w likwidacji (in liquidation)
- Zakład Opieki Zdrowotnej Medical Sp. z o.o.
- Przedsiębiorstwo Żywnienia Zbiorowego i Usług STO-ZAP Sp. z o.o.
- Technochimserwis S.A. (closely held company)
**Grupa Azoty ZAK S.A.**

<table>
<thead>
<tr>
<th>Company</th>
<th>Ownership interest (%)</th>
<th>Share capital</th>
</tr>
</thead>
<tbody>
<tr>
<td>ZAKSA S.A.</td>
<td>91.67 %</td>
<td>6,000</td>
</tr>
<tr>
<td>CTL Chemkol Sp. z o.o.</td>
<td>49.00 %</td>
<td>4,000</td>
</tr>
<tr>
<td>Grupa Azoty PKCh Sp. z o.o.</td>
<td>36.73 %</td>
<td>85,631</td>
</tr>
<tr>
<td>Kędzierzyńsko - Kozielski Park</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Przemysłowy Sp. z o.o.</td>
<td>14.21 %</td>
<td>16,612</td>
</tr>
</tbody>
</table>

**Companies placed in liquidation**

| Hotel Centralny w likwidacji Sp. z o.o. (in liquidation) | 100.00 % | 7,790 |

The following company was excluded from consolidation because of its immateriality:
- Kędzierzyńsko - Kozielski Park Przemysłowy Sp. z o.o.

**Grupa Azoty POLICE**

<table>
<thead>
<tr>
<th>Company</th>
<th>Ownership interest (%)</th>
<th>Share capital</th>
</tr>
</thead>
<tbody>
<tr>
<td>AUTOMATIKA</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Usługi Kontrolno - Pomiarowe Sp. z o.o.</td>
<td>100.00 %</td>
<td>7,168</td>
</tr>
<tr>
<td>KONCEPT Sp. z o.o.</td>
<td>100.00 %</td>
<td>511</td>
</tr>
<tr>
<td>REMECH Grupa Remontowo - Inwestycyjna Sp. z o.o.</td>
<td>100.00 %</td>
<td>6,212</td>
</tr>
<tr>
<td>TRANSTECH Usługi Sprzętowe i Transportowe Sp. z o.o.</td>
<td>100.00 %</td>
<td>9,783</td>
</tr>
<tr>
<td>Zarząd Portu Morskiego Police Sp. z o.o.</td>
<td>99.97 %</td>
<td>19,890</td>
</tr>
<tr>
<td>African Investment Group S.A.</td>
<td>54.90 %</td>
<td>(CFA)</td>
</tr>
<tr>
<td>Budchem Sp. z o.o. w upadłości likwidualnej (in bankruptcy by liquidation)</td>
<td>48.96 %</td>
<td>1,201</td>
</tr>
<tr>
<td>KEMIPOL Sp. z o.o.</td>
<td>33.99 %</td>
<td>3,445</td>
</tr>
</tbody>
</table>

**Companies placed in liquidation**

| Supra Agrochemia Sp. z o.o. w likwidacji (in liquidation) (*) | 100.00 % | 19,721 |
| Infrapark Police S.A. w likwidacji (in liquidation)           | 54.43 %  | 14,986 |

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

<table>
<thead>
<tr>
<th>Company</th>
<th>Ownership interest (%)</th>
<th>Share capital</th>
</tr>
</thead>
<tbody>
<tr>
<td>Grupa Azoty Automatyka Sp. z o.o.</td>
<td>79.69 %</td>
<td>4,547</td>
</tr>
<tr>
<td>Grupa Azoty JRCh Sp. z o.o.</td>
<td>100.00 %</td>
<td>21,749</td>
</tr>
<tr>
<td>Grupa Azoty Prorem Sp. z o.o. (*)</td>
<td>100.00 %</td>
<td>11,567</td>
</tr>
</tbody>
</table>

(*) On December 18th 2013, the Extraordinary General Meeting of Grupa Azoty Prorem Sp. z o.o. resolved to relocate the company’s registered office from Tarnów to Kędzierzyn-Koźle. On January 31st 2014, a relevant entry was made in the National Court Register.

The following subsidiaries of Grupa Azoty JRCh Sp. z o.o. were excluded from consolidation because of their immateriality:
- Regionalne Laboratorium Oceny Mleka Sp. z o.o.
- Konsorcjum EKO TECHNOLOGIES
- EKOTAR Sp. z o.o.

1.4. Parent’s branches (divisions)

The Parent does not operate any branches (divisions) outside of its principal place of business.

1.5. Employment

Number of employees at the Grupa Azoty Group

<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>9,057</td>
<td>5,757</td>
</tr>
<tr>
<td>white collar employees</td>
<td>4,822</td>
<td>2,850</td>
</tr>
<tr>
<td>Total</td>
<td>13,879</td>
<td>8,607</td>
</tr>
</tbody>
</table>

Number of employees at consolidated subsidiaries

<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>7,759</td>
<td>4,515</td>
</tr>
<tr>
<td>white collar employees</td>
<td>4,048</td>
<td>2,113</td>
</tr>
<tr>
<td>Total</td>
<td>11,807</td>
<td>6,628</td>
</tr>
</tbody>
</table>

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

<table>
<thead>
<tr>
<th>Employee group</th>
<th>average annual</th>
<th>as at Dec 31 2013</th>
</tr>
</thead>
<tbody>
<tr>
<td>blue collar employees</td>
<td>9,109</td>
<td>9,057</td>
</tr>
<tr>
<td>white collar employees</td>
<td>4,774</td>
<td>4,822</td>
</tr>
<tr>
<td>Total</td>
<td>13,883</td>
<td>13,879</td>
</tr>
</tbody>
</table>

Number of employees at consolidated subsidiaries: average annual and as at the end of 2013
Employee group

- blue collar employees
- white collar employees
- Total

<table>
<thead>
<tr>
<th>average annual</th>
<th>as at Dec 31 2013</th>
</tr>
</thead>
<tbody>
<tr>
<td>7,800</td>
<td>7,759</td>
</tr>
<tr>
<td>4,007</td>
<td>4,048</td>
</tr>
<tr>
<td>11,807</td>
<td>11,807</td>
</tr>
</tbody>
</table>

Employee turnover from January 1st to December 31st 2013

<table>
<thead>
<tr>
<th>Description</th>
<th>2013</th>
</tr>
</thead>
<tbody>
<tr>
<td>New hires</td>
<td>694</td>
</tr>
<tr>
<td>Redundancies</td>
<td>671</td>
</tr>
<tr>
<td>Total</td>
<td>23</td>
</tr>
</tbody>
</table>

Employment by summary education

<table>
<thead>
<tr>
<th>Description</th>
<th>Year</th>
<th>University or equivalent</th>
<th>Secondary</th>
<th>Vocational</th>
<th>Primary</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of employees</td>
<td>2013</td>
<td>13,879</td>
<td>3,479</td>
<td>5,760</td>
<td>3,717</td>
</tr>
<tr>
<td>Number of employees</td>
<td>2012</td>
<td>8,607</td>
<td>1,879</td>
<td>3,347</td>
<td>2,721</td>
</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>1,419</td>
<td>1,823</td>
<td>2,503</td>
<td>8,134</td>
</tr>
<tr>
<td>Number of employees</td>
<td>2012</td>
<td>518</td>
<td>663</td>
<td>1,700</td>
<td>5,726</td>
</tr>
</tbody>
</table>

Grupa Azoty Group
2. Management of the Grupa Azoty Group

2.1. Grupa Azoty Group’s organisational chart
2.2. Changes in key management policies

Management model
In July 2013, the Parent’s Management Board approved the assumptions for a new management model for the 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 Parent’s 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 Parent’s 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 Grupa Azoty, ensuring compliance with listed-company disclosure requirements. 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 Parent’s 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 within the Group. The Council comprises members of the Parent’s Management Board, members of the management boards of the Company’s subsidiaries, and the Parent’s Managing Director.

Exercise of ownership – corporate governance policy
In order to standardise corporate management and supervision policies at the Group following the inclusion of Grupa Azoty PUŁAWY, and in anticipation of the then-planned acquisition of a majority interest in Grupa Azoty SIARKOPOL, 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 Group-wide 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 Parent’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 Parent’s Management Board:

- by taking strategic decisions, the Parent’s Management Board sets the key 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; the Parent’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 Grupa Azoty 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 Parent’s Management Board are defined in the relevant Rules of Procedures. The division of powers and responsibilities among its members is determined by the Parent’s 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 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 Parent**

The need to adapt the Parent’s organisation to the requirements of modern management for a large corporate group has necessitated a number of changes within the Parent’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 the Group, 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 Parent’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 the Parent’s subsidiaries
As of January 1st 2014, the Parent’s Shared Services Centre expanded its operations to include support for some of the subsidiaries. The Centre will provide accounting, tax, HR and payroll services to the Parent, 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 Business Segment, comprising the Plastics Business Unit in Tarnów and the Plastics Production Unit in Pulawy, 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. Parent’s equity and other instruments. Significant shareholders

3.1. Total number and par value of Parent shares, holdings of Parent shares by supervisory and management personnel, and interests of such persons in the Parent’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 Parent shares is 99,195,484 bearer shares (ISIN code PLZATRM00012).

Parent 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 removed from the Management Board.

On May 17th 2013, the Parent reported the following transactions in Parent shares executed by Witold Szczypiński, Vice-President of the Management Board (see Current Report No. 93/2013):
- sale of 339 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 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 Parent.

Parent 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 Parent shares by the supervisory personnel have not changed.

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

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

The Parent 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 plans

The Parent does not operate any control systems for employee share ownership plans.

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

The Grupa Azoty Group companies do not hold treasury shares.

Parent 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 Koziara - 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 in the Parent carried out at the end of 2012 and in the beginning of 2013, see the Directors’ Report on the operations of the Grupa Azoty Group for the twelve months ended December 31st 2012 (Note 3.5 Equity and debt issues, p. 17), 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 Parent had spent the proceeds from Public Offerings by the end of H1 2013. The proceeds were used in line with the original issue objectives.

The cash value of the Parent’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 Parent 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 Parent 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 - to the full amount specified in the prospectus of 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 PUŁAWY; as a result, the Parent’s interest in Grupa Azoty PUŁAWY’s share capital increased to 95.98%.

The Parent 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>from equity offerings</th>
<th>Expenditure Jan 1-Dec 31 2013</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revamp of caprolactam plant with construction of new hydrogen facility</td>
<td>199,420</td>
<td>58,137</td>
<td>13,273</td>
<td>128,010</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>38,000</td>
<td>-</td>
</tr>
<tr>
<td>Expansion of modified plastics facility</td>
<td>23,490</td>
<td>-</td>
<td>-</td>
<td>23,490</td>
<td>-</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>
<td>-</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>
<td>7,769</td>
</tr>
<tr>
<td>Acquisition of shares in Grupa Azoty POLICE</td>
<td>569,250</td>
<td>-</td>
<td>-</td>
<td>569,250</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>
<td>-</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>
<td>-</td>
</tr>
<tr>
<td><strong>Total expenditure to finance issue 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>
<td>7,769</td>
</tr>
</tbody>
</table>
3.7. Parent shares

The Parent 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.

Parent 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 Parent has been a part of the WIG30 index of the largest companies listed on the WSE. The Parent 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 Parent’s inclusion in the MSCI Emerging Markets index. The Parent’s inclusion in the index is expected to increase its appeal in global capital markets and improve its standing among international investors.

MSCI indices have been published by Morgan Stanley since 1970. All other key information on Parent shares, including information on voting rights restrictions, is presented in section 10 of this Report - Statement of compliance with corporate governance rules.

Shareholding structure

Shareholding structure as at December 31st 2013

<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.à.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>Other</td>
<td></td>
<td></td>
<td></td>
<td></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 December 31st 2013 to the date of issue of this Report, the Parent has not been notified of any changes in large holdings of its shares.

Performance of Parent shares

Having continued the upward trend begun in January 2012, the Parent 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 Parent 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.
Parent share price from the IPO (June 30th 2008) to December 31st 2013

![Graph showing share price fluctuations from June 2008 to December 2013]

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 Parent’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 Grupa Azoty’s further development. In future, the Management Board will recommend to the General Meeting dividend distributions of no more than 40-60% of the Parent’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 Parent 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.


In the reporting period, the Parent 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 Parent shares, published between January 1st 2013 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 BP</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, Grupa Azoty provides all market participants, in particular current and prospective shareholders, with exhaustive and reliable information on events taking place at the Parent and the Grupa Azoty Group. In its communications with investors, Grupa Azoty goes above and beyond the statutory disclosure requirements. The Parent pursues an open information policy in response to the high expectations of capital market participants.

Upon issue of periodic reports, Grupa Azoty holds conferences to present and discuss the financial performance of the Parent and the Group. 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 Grupa Azoty also met with capital market participants during numerous one-on-one meetings and conferences. Since its IPO, Grupa Azoty 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 Parent makes every effort to ensure that the published information is disseminated among as many recipients as possible. To this end, in 2013 Grupa Azoty began to publish its key 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 issue 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 the Parent’s corporate website.

Grupa Azoty Group
The corporate website is a key tool for communicating with the capital market, featuring the Parent’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, 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.

The Parent’s IR efforts were also recognised by investors, who praised the its active participation in the Akcja Inwestor campaign in the popular Polish economic daily Puls Biznesu. Consequently, the Parent has been honoured with the prestigious “Responds to Investors” mark since August 2010.

4. Business overview

Key information on the Grupa Azoty Group
The Grupa Azoty Group is the largest chemical group in Poland and a significant player in the European Union. The Group's business is divided into the following segments:

- Agro Fertilizers,
- Plastics,
- Chemicals,
- Energy,
- Other Activities.

Agro Fertilizers
Fertilizers are the key manufacturing segment of the Grupa Azoty Group. The segment’s offering comprises one-component fertilizers (including mainly nitrogen fertilizers in dry and liquid form, as well as potassium and phosphorous fertilizers), compound fertilizers (NP, PK, NPK), and fertilizers with admixture of secondary nutrients (mainly sulfur) or microelements.

There are six companies which manufacture products classified within this segment: the Parent, Grupa Azoty ZAK S.A., Grupa Azoty POLICE, Grupa Azoty PULAWY and two subsidiaries of Grupa Azoty PULAWY: GZNF Fosfory Sp. z o.o. and Zakłady Azotowe Chorzów S.A.

Additionally, ammonia and nitric acid, which are key semi-products in the manufacture of nitrogen fertilizers, are classified within this segment. The Grupa Azoty Group is the leading manufacturer of mineral fertilizers in Poland, and ranks second in the European Union in terms of production capacity.

Plastics
The Plastics Segment comprises production of polyamides (PA 6 and modified engineering plastics), polyoxymethylene (POM), caprolactam, and cyclohexanone. Plastics and associated products are manufactured by the Parent, by Grupa Azoty PULAWY and by Grupa Azoty ATT Polymers GmbH.

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

Chemicals
The main products of the Grupa Azoty Group’s Chemicals Segment include melamine, OXO products, urea for technological applications, sulfur and titanium white.

They are manufactured by Grupa Azoty PULAWY, Grupa Azoty ZAK S.A., Grupa Azoty POLICE and Grupa Azoty SIARKOPOL.

UREAs manufactured within the Grupa Azoty Group – in Pulawy, Kędzierzyn and Police – is finding increasingly broad applications in industrial processes, which leads to a diversification of the target markets.

Grupa Azoty PULAWY is the only manufacturer of melamine in Poland and a significant producer of melamine in Europe. It also ranks among the top global players in the melamine market. Grupa Azoty ZAK S.A. is the sole manufacturer of OXO alcohols in Poland, ranking seventh in Europe. It

Grupa Azoty Group
also ranks first in Poland and fourth in Europe among manufacturers of plasticizers. Grupa Azoty POLICE is the only producer of titanium white in Poland.

Energy
The Energy Segment comprises electricity, coal and natural gas. 100% of the segment’s products are sold on the domestic market. Due to network limitations, energy carriers are sold predominantly to customers operating within the Group companies’ premises or in their close vicinity.

In 2013, electricity was sold:

- to customers connected to the Power Distribution System of the Grupa Azoty Group,
- on the Power Market,
- on the Balancing Market (sale of excess volumes).

Companies of the Grupa Azoty Group operate their own distribution networks.

Utilities, including heat, electricity, water, and other, are sold under agreements between Group companies and the customers.

Electricity sales are governed by the applicable regulations issued by the Energy Regulatory Office.

Other Activities
Companies of the Grupa Azoty Group manufacture catalysts which are used in selected chemical synthesis processes, as well as in the production of ammonia, hydrogen and synthetic gas. The segment’s product range includes the following catalysts:

- iron-chromium catalyst,
- copper-zinc catalyst,
- iron catalyst.

Logistics, as well as repair and design services, are important elements of the system.

The Other Activities Segment of the Grupa Azoty Group comprises various operations in the area of environmental protection, testing-related diagnostic and inspection services, as well as management of the organisation’s shared property. The Grupa Azoty Group operates its own research facilities, which focus on development of existing products as well as on research and development of new products and technologies.

4.1. Overview of key products

Key products of the Grupa Azoty Group include:

Nitrogen fertilizers
Urea is a nitrogen fertilizer containing 46% nitrogen. Urea is a universal fertilizer - it can be used for all crops during various growth stages, both in granulated and liquid form, and can also serve as an additive to animal fodder. Urea is manufactured in Kędzierzyn, Police and Puławy. The product is also offered to customers in the industrial processing sector. PULREA®, i.e. UREA manufactured in Puławy, is additionally processed into liquid form - urea and ammonium nitrate solution (UAN - RSM®), and into melamine.

Calcium ammonium nitrate (CAN) is a nitrogen fertilizer containing approximately 27-27.5% nitrogen. It can be used both during sowing and during plant growth. CAN is a universal fertilizer, suitable for all types of soil, particularly acidic and magnesium-deficient soil. It is characterised by good solubility, and therefore it is easily absorbed by crops. The Grupa Azoty Group offers CAN under a well-recognisable brand Salmag®, Its modifications include Salmag® with boron and Salmag® with sulfur, which has unique sowing properties. Another CAN brand offered by the Group is Saletterzak 27 Standard, which also has boron added.

Ammonium nitrate is a nitrogen fertilizer which is easily dissolved in water, containing between 30% and 34% nitrogen. It can be applied both before sowing or planting crops and for top dressing. It is also used to produce explosives. Furthermore, the product is used as feedstock in the production of urea- ammonium nitrate solution (UAN- RSM®). The Group’s offering comprises two key brands:
PULAN® (the ammonium nitrate from Puławy), which contains about 34% of nitrogen, and Kędzierzyńska Saletra Amonowa®, with a 32% nitrogen content, which is distinguished by its excellent sowing characteristics and has a controlled admixture of dolomite, making it safe to transport.

Nitrogen-sulfur fertilizers

Ammonium sulfate nitrate is a nitrogen fertilizer with sulfur, containing 26% nitrogen and 13% sulfur. This fertilizer can be used for both pre-sowing applications and for top dressing. Application of ammonium sulfate nitrate leads to improved sulfur balance in the soil, boosting the quality of crops. The Grupa Azoty Group markets this product under a trade name Saletrostan®26 Makro.

Ammonium sulfate-urea mix is a nitrogen fertilizer with sulfur, containing 21% nitrogen, 35% sulfur and 4% magnesium. It is recommended for application in the spring and suitable for all crops. This fertilizer is marketed by the Group under the trade name Polifoska®21.

Ammonium sulfate is a nitrogen fertilizer with sulfur, containing 21% nitrogen and 24% sulfur. It is a by-product in the manufacture of caprolactam. After being added to soil, ammonium sulfate lowers its pH, hence it is effective in soil with alkaline and neutral reaction. It is particularly useful for fertilizing plants with high sulfur requirements. Ammonium sulfate is also used as feedstock in the production of compound fertilizers and for technological applications in the tanning, food processing and cosmetics industries. The Group offers this product under the trade names PULSAR® and Siarczan Amonu AS-21.

Compound fertilizers (NPK, NP, PK)

Compound fertilizers are universal fertilizers which, depending on composition, can be applied to various types of crops and soil. Aside from the primary components - nitrogen (N), phosphorous (P) and potassium (K), these fertilizers contain secondary nutrients such as magnesium, sulfur or calcium, and may contain microelements such as boron.

Compound fertilizers can be applied to all crops: winter and spring plants, large-scale crops and root plants, on grassland and in vegetable and fruit farming. The Group also offers dedicated fertilizers with composition meeting the requirements of individual customers. The Group's current offering of compound fertilizers comprises products sold under the brands of Polifoska®, Polidap®, Polimag® and Amofoska®, as well as phosphate fertilizers - Superphosphates.

Liquid fertilizers

PULASKA® is a solution of nitrogen fertilizer containing sulfur, derived by mixing urea and ammonium sulfate solutions. It contains an environmentally-neutral corrosion inhibitor, and is easily absorbed by crops.

Urea-ammonium nitrate solution (UAN - RSM®) is a highly concentrated liquid fertilizer containing nitrogen in amide, nitrate and ammonium forms. The solution comes in three varieties: with 32%, 30% and 28% nitrogen content. UAN is finding increasingly broad applications due to the fact that it offers lower fertilizing costs compared with solid fertilizers, is highly effective and competitively priced. Thanks to its liquid form, UAN-RSM® is easily absorbed by plants.

It is also produced with an admixture of sulfur, as UAN-RSM®S.

Ammonia is produced on a commercial scale in a process of direct synthesis of nitrogen (derived from the air) and hydrogen (obtained from natural gas). Ammonia is the basic semi-product further used in the manufacturing of urea, ammonium nitrate, CAN, ammonium sulfate, UAN, and compound fertilizers. It is also used in the chemical industry, for instance in the production of caprolactam, polymers or explosives, or as a cooling agent.

Phosphorites occur as natural deposits in various parts of the Earth. Phosphorite is a sedimentary rock containing phosphate bearing minerals which, after being mined and beneficiated, are used mainly to produce phosphoric acid. Phosphoric acid is an intermediate product used to manufacture phosphate fertilizers such as triple super phosphate (TSP), diammonium phosphate (DAP), and compound fertilizers (NP and NPK). The Grupa Azoty Group is implementing a project to mine phosphorites in its own mine in Senegal.
Nitric acid/Nitrates. Nitric acid is produced in Poland by four manufacturing plants. Within the Grupa Azoty Group, it is manufactured in the Tarnów, Pulawy and Kędzierzyn plants; its fourth manufacturer is Anwil S.A. Concentrated nitric acid and nitrates are manufactured only in Tarnów.

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

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

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

Intermediates used for the manufacturing of plastics
Cyclohexanone and cyclohexanol are used mainly to manufacture caprolactam (and adipic acid). Only 5% of their production volume is placed outside of the polyamide market. The key feedstock in the production of cyclohexanone and cyclohexanol is cyclohexane (80%), with the balance represented by phenol (and toluene: 2%).

Caprolactam is an organic chemical; it is an intermediate product used in the manufacturing of polyamide 6. It is produced mainly from phenol and benzene.

Chemicals
Melamine is a non-toxic, non-flammable product in the form of a white powder; it is an input for the manufacture a broad range of synthetic resins, used to make laminated decorative materials, wood-based boards, glues, paints and varnishes, including products for the automotive industry, auxiliary materials for the textile and paper industry, as well as plastics used in the electrical industry and in the manufacture of household goods.

OXO alcohols
The Grupa Azoty Group manufactures the following OXO alcohols: 2-ethylhexanol (2EH), n-Butanol, isobutanol and octanol F.

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

N-Butanol is used in the manufacture of plasticizers, amino resins and varnishes. It is also used as an intermediate product for organic synthesis, an additive to oils, and a component for the manufacture of solvents and coating materials. It is applied in the textile, pharmaceutical and printing industries.

Isobutanol is used as an intermediate product for organic synthesis, for the manufacture of plasticizers, solvents, herbicides and coating materials.

Octanol F is an oxo alcohol used as a flotation agent in mining and as an auxiliary substance in the textile industry.
Plasticisers
The Grupa Azoty Group manufactures four plasticizers: DEHP, DIBP, DPHP and DEHT. Plasticisers are used in the chemical industry as agents softening plastics, mainly PVC, and as an additive to paints and varnishes. The Group manufactures plasticizers using an integrated manufacturing facility, with the majority of materials manufactured on site.

DEHP - bis(2-ethylhexyl) phthalate - is a universal plasticizer which is used in the processing of plastics, in particular in the manufacture of PVC. DEHP is also used as an additive for paints and varnishes. The Grupa Azoty Group markets this product under a trade name Oxoplast® O.

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

DPHP - bis(2-propyl heptyl) phthalate - is a plasticizer used in the automotive industry, in roofing, for the manufacture of artificial leather and waterproof canvas. It is marketed by the Grupa Azoty Group as Oxoplast® PH.

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

Technical grade urea. It is estimated that about 10% of the annual demand for urea is generated by other industrial sectors, which use urea as feedstock in the production of urea-formaldehydes (used in the manufacture of MDF boards, plywood and chipboards), for coating paper, leather and textiles, and for producing de-icing blends (for use on roads and aircraft runways).

PULNOx® is pure water solution of urea, with 35%, 40% and 45% urea content. This urea solution is commonly used in flue gas treatment technologies involving reduction of the content of nitric oxides (NOx) in flue gases. Urea solutions may be used as fertilizers.

NOXy™ (AdBlue®) is a new brand used by the Grupa Azoty Group to market its 32.5% urea water solution, commonly known as AdBlue®.

Sulfur occurs naturally in the environment and may also be obtained in industrial processes, mainly as a by-product of desulfurisation of crude oil and natural gas. In agricultural applications, sulfur contributes to a more effective absorption of nitrogen by a plant. Sulfur is used in the production of artificial fibres, mineral fertilizers, dyes, preservatives, cleaning agents, for glass and metal etching, in metallurgy and in mining (for treatment of ores). Grupa Azoty SIARKOPOL offers liquid sulfur, prilled sulfur, two varieties of insoluble sulfur, flaked sulfur, and five varieties of milled sulfur.

Titanium white (titanium dioxide - TiO₂) is a pigment and an important manufacturing component used in numerous industries. The key consumer for TiO₂ pigments is the paint and varnish industry. They are also used in the plastics, paper, rubber, textile, pharmaceutical and cosmetics industries. The Grupa Azoty Group also offers certified pigments for use in goods that come into contact with foodstuffs. TiO₂ pigments are sold under the registered trademark Tytanpol®. Grupa Azoty POLICE currently markets several types of titanium white.

Hydrogen peroxide is an inorganic compound from the group of peroxides, offered in the form of 35%, 49.5%, 50% and 60% stabilized water solutions. The Group also offers a special variety of 35% hydrogen peroxide for food processing applications, which is dedicated for use in aseptic food product packaging and filling processes.
4.2. Sales markets and sources of strategic raw materials

The Grupa Azoty Group enjoys a strong position in domestic and foreign chemical markets. Its products are mainly marketed to EU countries, particularly Germany, the Czech Republic, UK, France and Italy. Fertilizers are the key product sold on the domestic market. Exports to the EU are mainly plastics, oxo alcohols and plasticizers. In Asia, key products include oxo alcohols and caprolactam, whereas fertilizers constitute the bulk of South American exports.

Sales by geographies in 2013

Source: Company data.

Sources of strategic raw materials

The Group had one supplier whose share in the total cost of raw materials exceeded 10% – PGNiG S.A.

Natural gas
PGNiG S.A. supplied natural gas from the transmission network or from local sources under long-term agreements. Supplies from other trading partners were executed under short-term agreements. In 2013, the Grupa Azoty Group purchased 84.1% of its methane-rich natural gas from PGNiG S.A. and the remaining 15.9% from other sources.

Phosphorite
Phosphorite was purchased under periodic or spot contracts, chiefly from North African producers, given the material’s abundance in the region, as well as the well-developed local sea logistics infrastructure. The Group is diversifying its procurement strategy, relying strongly on its own deposits in Senegal, which give it a vital competitive advantage. The situation in the phosphorite market is to a large extent driven by the situation in the fertilizers sector.

Ammonia
The Group’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. Apart from satisfying its own requirements, the Group sells surplus ammonia to external customers (chiefly Grupa Azoty POLICE and Grupa Azoty ZAK). Effective implementation of the procurement strategy largely depends on conditions prevailing on the fertilizers market. The Group is the largest consumer of ammonia on the domestic market and in the region.
Propylene
The bulk of the Group’s purchases of propylene are made under annual contracts, with supplementary purchases made on the spot market. Propylene prices are driven to a large extent by oil prices. In 2013, Western European countries were the main propylene suppliers.

Ortoxylene
Ortoxylene is mainly supplied under one-year contracts, with minor supplementary purchases made on the spot market. Its prices are largely driven by the situation on the oil market. In 2013, European Union countries were the main ortoxylene suppliers.

Potassium salt
Given the substantial natural resources and competitive commercial terms, producers from Russia and Belarus are the primary suppliers of potassium salt. Supplies are executed under quarterly contracts, with supplementary deliveries sourced periodically from Western Europe.

Phenol
The Group’s phenol procurement strategy is based on two primary sources - Western European 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.

Sulfur
The Group’s sulfur procurement strategy is based on optimisation of petrochemical sulfur supplies to the Grupa Azoty Group companies and on supplementary deliveries from the recently acquired Grupa Azoty SIARKOPOL (the leading producer of liquid sulfur in Poland and the CEE). 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. The Group is the largest consumer of liquid sulfur on the domestic market and in the region.

Methanol
Methanol is mainly supplied 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 Group’s plant in Tarnów, with CEE manufacturers used as supplementary sources.

Benzene
Benzene is mainly supplied under one-year contracts, with supplementary purchases made on the spot market. Benzene is sourced chiefly from domestic and CEE suppliers. After the acquisition of Grupa Azoty PULAWY, the Grupa Azoty Group is by far the largest benzene consumer in Poland and one of the largest in the region, which gives it considerable competitive edge. The caprolactam and polyamide markets are 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.

Electricity
The Group purchased electricity from a few suppliers that trade with large customers: PGE S.A., TAURON Polska Energia S.A. and ENEA S.A. All contracts were executed following a tender procedure. The Group was able to negotiate only slight price increases under the contracts. It was possible to negotiate competitive contractual prices and terms thanks to the procurement strategy adopted by the Group, and in particular the procurement scale. Given the volatility of the electricity market and its changing legal framework, the Group’s policy was to purchase electricity under short-term contracts.

4.3. Key investments in Poland and abroad

The Group’s total capital expenditure in 2013 was PLN 513,393 thousand. This amount does not include maintenance capex (PLN 97,429 thousand) and expenditure on overhauls (PLN 43,046 thousand), catalysts (PLN 2,147 thousand), and other items directly related to investment projects (PLN 4,452 thousand). Structure of capital expenditure:
• Business development PLN 214,988 thousand,
• Business continuity PLN 153,703 thousand,
• Mandatory investments PLN 92,264 thousand,
• Purchase of finished goods PLN 52,438 thousand.

Structure of capital expenditure in 2013

Source: Company data

Capital expenditure at the Grupa Azoty Group in 2013:

• Parent PLN 135,472 thousand
• Grupa Azoty PULAWY Group (*) PLN 185,599 thousand
• Grupa Azoty ZAK Group PLN 53,194 thousand
• Grupa Azoty POLICE Group PLN 119,465 thousand
• Grupa Azoty ATT Polymers GmbH PLN 3,758 thousand
• Grupa Azoty PKCh Sp. z o.o. PLN 8,271 thousand
• Grupa Azoty KOLTAR Sp. z o.o. PLN 2,786 thousand
• Grupa Azoty SIARKOPOL (*) PLN 4,848 thousand

(*) Capital expenditure figures for the Grupa Azoty PULAWY Group companies cover the period January 19th–December 31st 2013, and for Grupa Azoty SIARKOPOL the period November 1st–December 31st 2013.

Parent

Modernisation of the sulfuric acid facility was the largest project carried out by the Parent. Its aim was to ensure the operational continuity of one of the key units 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.
Other key investments included:

- Upgrade of the interior of ammonia synthesis reactors,
- Purchase and assembly of a new circulating hydrogen compressor for the phenol hydrogenation unit at the PD catalyst,
- Consolidation of IT systems of Grupa Azoty Group companies,
- Bulk fertilizer storage facility.

The objective of upgrading the interior of ammonia synthesis reactors 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.

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 unit at the PD catalyst 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 units in the caprolactam plant. The project has progressed as planned. Its final completion 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.

The IT consolidation project covers consolidation of IT systems operated by the Parent and Grupa Azoty ZAK S.A. 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 780 thousand was spent in 2013.

Bulk fertilizer storage facility project involves 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 Saleetrosan® 26 (macro granules ASN) and Saletrzak 27 Makro (macro granules CAN) products, and to properly complete the manufacturing process and improve the product quality. The project's budget is PLN 43,000 thousand. Currently, the design for the project is being developed. Final completion of the project is planned for 2015. Expenditure incurred so far is PLN 365 thousand, all of which was spent in 2013.

**Grupa Azoty PULAWY**

The largest investment project carried out in 2013 was the construction of the flue gas desulphurisation unit, undertaken to limit sulfur dioxide emissions from the CHP plant, in line with the Minister of Environment's Regulation on Emission Standards for Combustion Installations. The project involved the construction of a new stack discharging desulphurised flue gas, as well as an absorption and sorbent preparation node, crystallisation node, and ammonium sulfate storage facility.

The project's budget was PLN 250,000 thousand. All of the necessary plant and structures under the project were completed. The unit was certified for use and subsequently was placed in service. The expenditure incurred totalled PLN 234,122 thousand, of which 7,977 thousand was spent in 2013.
Other key investments included:

- Production of liquid fertilizers based on urea and ammonium sulfate,
- Production of solid fertilizers based on urea and ammonium sulfate,
- Construction of ammonia storage and distribution facilities,
- Purchase of 380 tanks with capacities of 25 cubic metres and 50 cubic metres for the UAN sales network, along with field commissioning.

The project related to production of liquid fertilizers based on urea and ammonium sulfate involved the construction of a production line for liquid fertilizers based on urea and ammonium sulfate, as well as liquid fertilizer storage tanks along with the necessary infrastructure.

The project's budget is PLN 69,500 thousand. The technological start-up of the units was completed, and production of commercial quantities of PULASKA® and PULNOx® was achieved. The project was placed in service. The expenditure incurred totalled PLN 65,914 thousand, of which 30,327 thousand was spent in 2013.

Phase 1 of the project related to production of solid fertilizers based on urea and ammonium sulfate was completed. It involved the construction of a packaging shop complex and a product storage facility, a technical and amenity building, an office and amenity building, as well as a passage connecting the newly-built packaging shop with the existing urea packaging shop. Currently, the technical documentation for Phase 2 of the project (PULGRAN production unit) is being prepared, and tender and contracting procedures are in progress to select suppliers of plant and equipment and contractors to perform construction work.

The project's budget is PLN 137,500 thousand. Expenditure incurred so far is PLN 50,982 thousand, of which 18,511 thousand was spent in 2013.

Other investment projects are also under way to construct new or expand/alter existing units, which are of paramount importance to further development of the existing production lines. The key project in this area is the construction of ammonia storage and distribution facilities. The facilities, with a capacity of 15,000 tonnes, will make it possible to diversify feedstock supply (natural gas, ammonia), improve the operational stability of individual units producing and using ammonia, and facilitate stocking ammonia in periods of limited gas supply.

The project's budget is PLN 108,500 thousand. Construction of the steel part of the storage facility and a concrete safety wall was completed. Further assembly work, as well as anti-corrosion and isolation treatments are under way at the tank. Gradually, piping, apparatus, and equipment are being assembled. Tender and contracting procedures are being carried out to select suppliers of piping and equipment, and contractors to handle the remaining work. Final completion of the project is planned for 2014. Expenditure incurred so far is PLN 74,472 thousand, of which 46,563 thousand was spent in 2013.

The project to purchase 380 tanks with capacities of 25 cubic metres and 50 cubic metres for the UAN-RSM® sales network, along with the field commissioning project, will expand the UAN-RSM® sales network by a total of 600 new UAN-RSM® tanks. Following its completion, the domestic sales of UAN-RSM® will be optimised, making it possible to reach the largest possible number of end users (the network effect) with optimum logistics.

The project's budget is PLN 21,620 thousand. In December 2013, technical acceptance of all UAN-RSM® storage tanks was completed, and they were handed over for use by the trading partners. Final completion of the project is planned for 2014. Expenditure incurred so far is PLN 12,226 thousand, of which 12,226 thousand was spent in 2013.

**Grupa Azoty ZAK S.A.**

Major investments at Grupa Azoty ZAK S.A. in 2013 included:

- Terephthalate - adaptation of the ester unit to the production of di(2-ethylhexyl) terephthalate,
- Upgrade of waste treatment facilities,
- Expansion of the steam network through the addition of a 4.0 MPa steam collector,
- Replacement of a LaMont boiler at the TK IV nitric acid unit.
As part of the terephthalate project, involving adaptation of the ester unit to the production of di(2-ethylhexyl) terephthalate, the technological processes employed at the ester unit were altered to support production of a new ester, i.e. di(2-ethylhexyl) terephthalate (TFDO). The altered unit was placed in service. The capital expenditure totalled PLN 4,561 thousand, of which PLN 1,753 thousand was incurred in 2013.

The upgrade of waste treatment facilities was undertaken to increase work efficiency, reduce arduous working conditions and improve occupational health and safety. The project's budget is PLN 6,580 thousand. The general contractor was declared bankrupt while the project was in progress, and therefore a new contractor was selected. Currently, the construction work is nearing completion, in accordance with the scope of work given to the contractor, and activities relating to the construction of control and instrumentation systems are under way. Final completion of the project is planned for 2014. Expenditure incurred so far is PLN 5,402 thousand, of which 3,574 thousand was spent in 2013.

The objective behind the expansion of the steam network through the addition of a 4.0 MPa steam collector was to ensure continued production during the OXO boiler stoppages. The project was completed and placed in service. The expenditure incurred totalled PLN 3,492 thousand, of which 2,194 thousand was spent in 2013.

The replacement of a LaMont boiler at the TK IV nitric acid unit was undertaken to improve operational stability and ensure continuity of nitric acid production at the TK IV unit by replacing the boiler, ammonia oxidisation installation and piping. The project's budget is PLN 8,120 thousand. The project has progressed as scheduled, and its final completion is planned for 2014. Expenditure incurred so far is PLN 3,030 thousand, of which 3,000 thousand was spent in 2013.

Grupa Azoty POLICE

Key investment projects in 2013 included:
- Upgrade of ammonia synthesis reactors,
- Expansion of the post-calcination gas desulfurisation system through the addition of two new reactors,
- Purchase and assembly of the second 63-7 roller mill facility,
- Exhaust gas treatment unit and upgrade of the EC II CHP plant,
- Production of POLIFOSKA® 21 and ammonium sulfate at the DAP facility,
- Upgrade of the ammonia unit,
- Construction of an industrial wastewater neutralisation unit at the titanium white plant,
- Construction of a decomposition sludge neutralisation unit.

The upgrade of ammonia synthesis reactors is intended to ensure a higher synthetic gas reaction rate, which will lower the process pressure and, as a result, reduce energy consumption by the synthetic gas compressor (by 0.28 GJ per tonne of ammonia produced). The project's budget is PLN 24,400 thousand. In 2013, the ammonia synthesis reactor at production line A was upgraded, and the target operational parameters were achieved. The upgrade of the ammonia synthesis reactor at production line B is scheduled for August 2014. Expenditure incurred so far is PLN 11,547 thousand, of which 11,545 thousand was spent in 2013.

The project involving expansion of the post-calcination gas desulphurisation system through the addition of two new reactors was undertaken to improve the efficiency of the post-calcination gas desulphurisation process. It is one of the initiatives designed to ensure compliance with the more restrictive SO₂ emission requirements of the IED. The project's budget is PLN 8,860 thousand. The contract with the project contractor was terminated while the work was in progress, and a tender procedure is currently being held to select new contractors. Final completion of the project is planned for 2014. Expenditure incurred so far is PLN 2,043 thousand, of which 2,031 thousand was spent in 2013.

The main objective of the purchase and assembly of the second 63-7 roller mill is to reduce the costs of repair/maintenance and operation of Raymond mills, in particular the cost of electricity consumption.
The project’s budget is PLN 5,390 thousand. In 2013, a mill was purchased and technical rooms were completed. Currently, electrical and control cabinets are being fitted. The purchased roller mill has been transported to the destination site and is currently being assembled. Final completion of the project is planned for 2014. Expenditure incurred so far is PLN 3,659 thousand, of which 3,490 thousand was spent in 2013.

The aim of the construction of an exhaust gas treatment unit and upgrade the EC II CHP plant is to bring the co-generation operations in line with the SO₂ and NOₓ emissions requirements of the IED (Directive 2010/75/EU). The project’s budget is PLN 163,700 thousand. Trial run tests were carried out and completed successfully on one of the two boilers. Work is currently in progress to optimise the boiler’s operation. A flue gas denitration unit is being constructed and work on the design of a flue gas desulfurisation system for the two boilers is under way. Completion of the project is planned for 2015. Expenditure incurred so far is PLN 47,630 thousand, of which 46,266 thousand was spent in 2013.

The key objective of the project related to production of POLIFOSKA® 21 and ammonium sulfate at the DAP facility is to enable the manufacturing of the products at the DAP facility using waste post-hydrolytic acid. The project’s budget is PLN 11,000 thousand. In 2013, upgrades were performed on the absorption system, the drier, mixer drive units, bucket conveyors, the fertilizer coating system at line X, and the control system. At the current stage of the project, both POLIFOSKA® 21 and ammonium sulfate can be manufactured at the DAP facility. Final completion of the project is planned for 2014. Expenditure incurred so far is PLN 9,389 thousand, all of which was spent in 2013.

The key objective of the upgrade of the ammonia unit is to reduce energy consumption of the ammonia production process and to improve the operational reliability of individual process nodes. The project’s budget is PLN 155,600 thousand. The project was approved for implementation in September 2013. The procedure to select the project manager is currently in progress. Final completion of the project is planned for 2016. In 2013, no expenditure was incurred on the project.

The objective of the project involving the construction of an industrial wastewater neutralisation unit at the titanium white plant is to ensure compliance of the sulfate ion emissions to water from the titanium white production plant with the requirements of the IED, which sets the emissions limit at 550kg of SO₄²⁻ per tonne of TiO₂. The project’s budget is PLN 20,000 thousand. In 2013, a contractor was selected to prepare the engineering documentation. Final completion of the project is planned for 2015. Expenditure incurred so far is PLN 542 thousand, all of which was spent in 2013.

The project involving the construction of a decomposition sludge neutralisation unit was undertaken to reduce sulfate ion emissions to water to 550kg of SO₄²⁻ per tonne of TiO₂, as required by the IED. The project involves adaptation of the 1/F1 filter press systems so that they can be used for the separation and washing of clarifier post-reaction solids (called sludge) from the Black Section Division (GP-GPP-PPC). The project’s budget is PLN 7,400 thousand. In September 2013, the required corporate approval was obtained to launch the project. The work contracted under the project to date includes preparation of the engineering documentation and obtaining a building permit. Final completion of the project is planned for 2015. Expenditure incurred so far is PLN 87 thousand, all of which was spent in 2013.
4.4. Bank deposits and equity investments

Acquisition of shares in Grupa Azoty PULAWY
On August 21st 2012, following a tender offer announced on July 13th 2012, the Parent acquired 1,968,083 shares in Grupa Azoty PULAWY, representing 10.3% of the company’s share capital and conferring the right to 10.3% of votes at its General Meeting. The acquisition covered all Grupa Azoty PULAWY shares tendered in response to the offer, i.e. 1,968,083 shares in the target company, representing 10.3% of its share capital and conferring the right to 10.3% of votes at its General Meeting. The shares were acquired by the Parent for PLN 110 per share, bringing the total transaction value to PLN 216,489,130. Prior to the tender offer, the Parent did not hold any Grupa Azoty PULAWY shares. The shares acquired by the Parent are admitted to trading on the regulated market operated by the Warsaw Stock Exchange. For information on further acquisitions of Grupa Azoty PULAWY shares, see section 4.5.

Acquisition of shares in African Investment Group S.A.
On August 28th 2013, Grupa Azoty POLICE acquired a 55% equity interest in African Investment Group S.A. (“AIG S.A.”) of Almadies, Senegal. The purchase agreement provides for the payment to be made in three tranches. The total value of the transaction is USD 28.85m.
On August 28th 2013, Grupa Azoty POLICE sold one share in AIG S.A. to a subsidiary (for details, see section 1.3 Changes in the Group structure of this Report).

Acquisition of shares in Grupa Azoty SIARKOPOL
On September 25th 2013, the Parent entered into a conditional share purchase agreement for an 85% equity 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 under the conditional share purchase agreement. The transaction was valued at PLN 320,004 thousand. 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 the Parent’s own funds, with the balance sourced from a bank loan.

Other information
Grupa Azoty PULAWY is continuing negotiations on the acquisition of shares in Zakłady Chemiczne Organika-Sarzyna S.A. of Nowa Sarzyna from Ciech S.A. As at December 31st 2013, the negotiations concerned a 99.64% interest in the company. Considering different financing options, the contemplated transaction is viewed as feasible.

4.5. Bank deposits and equity investments within the Grupa Azoty Group

Bank deposits
In 2013, the Group’s short-term funds were primarily held in a current account with PKO Bank Polski S.A., linked under virtual cash-pooling facility 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 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. Moreover, the Grupa Azoty Group companies maintained other free cash in short-term deposits held 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 Group companies held a total of PLN 712,594 thousand in bank accounts and short-term deposits, of which PLN 101,970 thousand was held in the current account with PKO Bank Polski S.A. linked with the virtual cash pooling.
All the companies’ cash as at December 31st 2013, discussed above, is disclosed in the *annual consolidated financial statements of the Grupa Azoty Group for the 12 months ended December 31st 2013*, in Note 17 Cash under *Cash and cash equivalents*.  
The Group earned a total of PLN 15,997 thousand in interest income on term deposits and cash held in accounts (including virtual cash pooling of funds deposited in accounts held with PKO Bank Polski S.A.).

**Equity investments**

- **Acquisition of shares in Grupa Azoty PULAWY**
  
  On January 18th 2013, after the concentration was finally cleared by the European Commission, the Parent acquired control over Grupa Azoty PULAWY (formerly: ZA Puławy S.A.) and its group. The Parent 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%.  
  
  In subsequent transactions, the Parent increased its interest in Grupa Azoty PULAWY's equity.  

  As a result of the follow-up tender offer announced on February 19th 2013, on April 11th 2013 the Parent 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 after the Parent exceeded the 66% threshold of voting rights at the General Meeting of Grupa Azoty PULAWY.

  After the Parent exceeded the statutory 90% threshold in total voting rights at the General Meeting of Grupa Azoty PULAWY, on April 22nd 2013 OPERA TFI S.A requested a mandatory buy-out of its holding of Grupa Azoty PULAWY shares by the Parent 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 Parent acquired 16,269 shares in Grupa Azoty PULAWY (0.09%), for a total price of PLN 2,165 thousand.

  As at December 31st 2013, the Parent 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 how the transaction was settled, 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 structure*.

- **Formation of SCF Natural Sp. z o.o.**
  
  On January 24th 2013, Grupa Azoty PULAWY and the Fertilizer Research Institute of Puławy (Instytut Nawozów Sztucznych) incorporated a new company under the name of SCF Natural Sp. z o.o. 

  Grupa Azoty PULAWY subscribed for 150,000 shares with a total value of PLN 15m in the new company, including:  

  - 33,236 shares with a total value of PLN 3,323,600 paid for with cash,  
  - 116,764 shares with a total value of PLN 11,676,400 paid for with a non-cash contribution in the form of the ownership title to an organised part of business - a hop granules production plant in Suchodoly.  

  The Fertilizer Research Institute subscribed for 10 (ten) shares with a total value of PLN 1,000, which were paid for with cash. The Fertilizer Research Institute will acquire the remaining shares and pay for them with an in-kind contribution in the form of the ownership title to the supercritical carbon dioxide hops extraction unit (HPLC technique) located in Puławy, the ownership title to the supercritical hops extraction technology, and, possibly, stocks of finished hop products.

- **Acquisition by Grupa Azoty PULAWY of 100% of shares in Agrochem Sp. z o.o. and Agrochem Puławy Sp. z o.o. from its subsidiary GNZF Fosfory Sp. z o.o.**
  
  On December 20th 2013, Grupa Azoty PULAWY signed an agreement with its subsidiary GNZF Fosfory Sp. z o.o. to acquire 1,000 shares in Agrochem Sp. z o.o. of Dobre Miasto (100% of the company's share capital), with a total par value of PLN 500 thousand, and 325,335 shares in Agrochem Puławy Sp. z o.o. of Puławy (100% of the company's share capital), with a total par value of PLN 32,534 thousand.
The agreement became effective on December 31st 2013.

4.6. Significant agreements

The Parent reported information on significant transactions in Current Report No. 44/2013 of March 13th 2013. The total value of transactions concluded by the Grupa Azoty Group and the PGNiG Group in the period from December 24th 2012 to March 13th 2013 was PLN 1,673,700 thousand, VAT-exclusive (including the estimated value of products and services contracted for delivery in 2013).

The highest value contract (on a VAT-exclusive basis) concluded in the reporting period was an annex 'Gas fuel volumes contracted in individual months of the contract year and contracted capacity' to the high-methane gas purchase agreement executed with PGNiG S.A. on January 14th 1999 for an indefinite term. The annex was signed by Grupa Azoty PULAWY on March 12th 2013. It specifies the capacity and gas fuel volumes contracted for 2013. The 2013 value of the contract is estimated at PLN 1,221m, VAT-exclusive.

The Parent reported information on significant transactions in Current Report No. 121/2013 of September 26th 2013. The total value of transactions concluded by the Grupa Azoty Group and the PGNiG Group in the period from March 13th 2013 to September 26th 2013 was PLN 875,300 thousand, VAT-exclusive (including the estimated value of products and services contracted for delivery in 2014). This figure does not include the commercial transactions concluded by the Parent's subsidiaries, Grupa Azoty POLICE and Grupa Azoty PULAWY, under their own significant agreements, which were reported by the Parent in Current Report No. 79/2012 of December 24th 2012 and Current Report No. 44/2013 of March 13th 2013.

The highest value contract (on a VAT-exclusive basis) concluded in the reporting period was an annex to a comprehensive gas supply agreement. The annex, signed by Grupa Azoty POLICE on September 26th 2013 and valued at approximately PLN 550,000 thousand, extending the term of the agreement until October 1st 2014 (the original expiry date was September 30th 2013).

In Current Report No. 128/2013 of November 7th 2013, the Parent reported that the total value of commercial transactions concluded between the Grupa Azoty Group and the Nitron Group over the preceding 12 months was PLN 1.03bn, VAT-exclusive (including the estimated value of products and services contracted for delivery in 2014–2016).

The highest value contract was the contract for sale of compound fertilizers, concluded on November 7th 2013 between Grupa Azoty Police, the Company’s subsidiary, and Nitron International Corporation of the United States.

The contract was executed for the period from January 1st 2014 to December 31st 2016, in accordance with the agreed schedule and business terms. The estimated value of the contract over its term is approximately PLN 607.9m (exclusive of VAT), which makes it the highest value contract among the agreements/annexes concluded between Grupa Azoty Group companies and the Nitron Group in the period of the past 12 months.

In Current Report No. 137/2013 of December 31st 2013, the Parent reported that the total value of commercial transactions concluded between the Grupa Azoty Group and the PGNiG Group in the period from September 26th 2013 to December 31st 2013 was PLN 1,246,000 thousand, VAT-exclusive (including the estimated value of products and services contracted for delivery in 2014). This figure does not include the commercial transactions concluded by the Parent's subsidiaries, Grupa Azoty POLICE and Grupa Azoty PULAWY, under their own significant agreements, which were reported by the Parent in Current Report No. 79/2012 of December 24th 2012 and Current Report No. 44/2013 of March 13th 2013.

The highest value contract was an annex 'Gas fuel volumes contracted in individual months of the contract year and contracted capacity' to the high-methane gas purchase agreement concluded with PGNiG S.A. on January 14th 1999 for an indefinite term. The annex was signed by Grupa Azoty PULAWY on December 31st 2013. It specifies the capacity and gas fuel volumes contracted for 2014. The 2013 value of the annex is estimated at PLN 1,090m, VAT-exclusive.
Events after the end of the reporting period
In Current Report No. 2/2014 of January 9th 2014, the Parent’s Management Board announced that the value of commercial transactions between the Grupa Azoty Group and the Pfleiderer Group of Germany had reached the significance threshold. The value of the transactions made in the 12 months preceding the date of the report totalled PLN 1,060,000 thousand (including the estimated value of products and services contracted for delivery over a five-year period, of PLN 694,200 thousand, VAT-exclusive). The highest value contract was a contract for the supply of prilled urea 46% and crystalline urea, executed on January 9th 2014 between Grupa Azoty ZAK S.A. (the Parent’s subsidiary) and Silekol Sp. z o. o. of Kędzierzyn-Koźle, a member of the Pfleiderer Group. The estimated value of the contract over its term of about five years is approximately PLN 694,200 thousand (exclusive of VAT), which makes it the highest value contract among the agreements/annexes concluded between the Parent and the Pfleiderer Group in the period of the past 12 months.

Significant transactions

<table>
<thead>
<tr>
<th>Commercial transaction</th>
<th>Subject matter</th>
<th>Period</th>
<th>Current report</th>
<th>Transaction value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Grupa Azoty Group</td>
<td>Purchase of natural gas</td>
<td>Mar 13 2013– Sep 26 2013</td>
<td>No. 121/2013 of Sep 26 2013</td>
<td>875,300</td>
</tr>
<tr>
<td>Grupa Azoty Group–Nitron Group</td>
<td>Sale of compound fertilizers</td>
<td>Nov 7 2012– Nov 7 2013</td>
<td>No. 128/2013 of Nov 7 2013</td>
<td>1,030,000</td>
</tr>
<tr>
<td>Grupa Azoty Group</td>
<td>Purchase of natural gas</td>
<td>Sep 26 2013– Dec 31 2013</td>
<td>No. 137/2013 of Dec 31 2013</td>
<td>1,246,000</td>
</tr>
</tbody>
</table>

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

4.8. Significant R&D achievements
Parent
The research work carried out in 2013 followed from the Group’s R&D strategy and focused both on optimisation of the Parent’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 Parent’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 quality of polyoxymethylene,
- research into reduction of caprolactam manufacturing costs and improvement of the product quality through optimisation of operation of selected nodes.

In 2013, Tarnamid® HF (high flow), a result of the Parent’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.
**Grupa Azoty PULAWY**

In 2013, in line with the development policy of Grupa Azoty PULAWY, two key projects were completed:

- Construction and commissioning of a flue gas desulfurisation unit at the CHP plant. The unit employs an innovative method of washing out sulfur compounds with water solution of ammonia and produces ammonium sulfate, commonly used as nitrogenous fertilizer with sulfur content,
- Construction and commissioning of a manufacturing unit for new liquid fertilizers based on urea, ammonium nitrate solution (RSM®), and ammonium sulfate. This project expanded the company's fertilizer product range.

In 2013, a feasibility study into manufacture of ammonium thiosulfate solution based on by-product refining was carried out jointly with Grupa Lotos S.A. Ammonium thiosulfate is a sought-after component of liquid fertilizer formulas and a rich source of sulfur easily absorbable by plants, which also improves nitrogen efficiency in urea fertilization by inhibiting urease.

**GZN Fosfory Sp. z o.o.**, a subsidiary, conducted research activities on manufacture of new phosphate and phosphate-potassium fertilizers with sulfur and calcium (P CaS and PK CaS). GZN Fosfory Sp. z o.o. also commenced work on alkaline (ammonia-based) absorption of sulfur compounds from the sulfuric acid unit with a view to manufacturing ammonium sulfate for use in compound fertilizers produced by the company.

**Grupa Azoty ZAK S.A.**

In 2013, the company's R&D activities focused on search for new products to expand the product range, as well as potential technical and technological upgrades to reduce energy consumption in the manufacture of key intermediates.

In the OXOPLAST Business Unit, R&D initiatives were focused on new types of non-phthalate plasticizers and potential non-alcohol products of butyraldehyde processing (intermediate product of oxo synthesis). Regular manufacture of the OXOPLAST OT plasticizer was launched, while efforts to increase the output continued. Grupa Azoty ZAK S.A. continued research activities geared towards expanding the offering of non-phthalate plasticizers, with a particular focus on bio-based plasticizers.

In the fertilizers area, the company continues work on developing new compound fertilizers and launching production of liquid fertilizers.

Various approaches to reducing energy consumption in manufacturing of key intermediate products (primarily ammonia) are also analysed. The company seeks to improve technological reliability of manufacturing process for key intermediate products used in fertilizer production.

**Grupa Azoty POLIC**

In 2013, the company's R&D activities focused primarily on developing new and upgrading the existing process lines.

The projects were to bring individual production units in line with the requirements of the IED Directive on industrial emissions (integrated pollution prevention and control). The conducted efforts covered the fertilizer, phosphoric and sulfuric acid, titanium white, urea and ammonia production units, as well as the power unit.

The most important R&D initiative was the work on replacing the dihydrate method of producing phosphoric acid with the semihydrate-dihydrate method.

The company also researched prospects for utilising neutralised decomposition residue from the titanium white manufacturing processes. Other R&D efforts involved use of iron sulfate monohydrate to produce ammonium sulfate and solid-state iron compounds solution.

In 2013, the energy audit of the Ammonia Plant was completed. The audit was to assess the plant's current energy efficiency plant and outline changes necessary to optimise the energy consumption.

Work also continued on analyses of technical possibilities of manufacturing the organic compounds referred to above.
4.9. Environmental performance

The Group companies hold 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 Group’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 Group companies operate in the chemical industry and are classified as facilities with a high risk of a serious industrial incident. Being aware of the possible consequences of their operations, the Group companies strive to mitigate their negative environmental impact.

Advanced technological solutions enable the Group companies 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 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 the Group facilities. Given the nature of its business, the Grupa Azoty Group 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 Group companies with respect to the production activities, investment projects, site restoration and arrangement for appropriate conditions for the manufacture, storage, transport and distribution of substances.

The Group companies operate 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 Grupa Azoty Group companies adhere 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, the Group’s products are treated as chemical substances or mixtures and are subject to Regulation (EC) No. 1907/2006 REACH.

The Group 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 Group, 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 Group fulfils its obligations as a downstream user 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 business of Group companies. 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 Group’s revenue.

**SPOT**

With the safety of people, their property and natural environment in mind, the Groups Tarnów-, Police and Kędzierzyn-Koźle-based plants offer assistance in the event of incidents involving transport of hazardous materials. In 2000, Grupa Azoty ZAK S.A. along with a group of chemical manufacturers and the Polish Chamber of Chemical Industry established the Assistance System for Transport of Hazardous Materials (SPOT) Association. The Parent and Grupa Azoty POLICE became members in 2001 and 2002, respectively, resolving to implement the Association’s programme.

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 Parent 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 at the Parent 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 Parent. 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 reducing consumption of the coolant. The project is planned for completion in 2014.
- Distillation of palladium-catalysed cyclohexanone rectification residue The purpose of the project was to 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 Parent 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 Parent's industrial facilities generate industrial wastewater, which is routed for treatment via an underground industrial sewer system and trestle-supported sewer lines.

The Parent 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 Parent are ash and slag.

The Parent 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 Parent 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 Parent also works with Branżowa Organizacja Odzysku S.A. to meet the appropriate packaging waste recovery and recycling targets.

Emissions
The Parent 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 Parent 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 unit 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 Parent 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 Group companies select 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 Grupa Azoty Group 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 Parent’s facilities does not exceed the permitted levels.

4.10. Significant events

Issue of Series D shares
The Parent 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 the acquisition and 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 Parent’s 14,032,026 shares in Grupa Azoty PULAWY, acquired in January 2013. The maximum secured amount is PLN 1,066,500 thousand.

On April 26th 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 Parent, PKO BP S.A. and PZU Życie S.A.

In total, the pledges established for PKO BP S.A. and PZU Życie cover all shares in Grupa Azoty PULAWY acquired by the Parent.
Amendments to the Parent’s Articles of Association

The Parent’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 Parent’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 Parent’s Annual General Meeting passed further resolutions amending the Articles of Association.

New provisions were added in Art. 5 expanding the scope of the Parent’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 controlling interest in African Investment Group S.A.

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 Grupa Azoty SIARKOPOL

On September 25th 2013, the Parent 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 Parent 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 Parent 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 the Parent’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 PULAWY. 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 WIG30 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 the Parent.

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 Parent 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 Parent completed the project.

At Grupa Azoty PULAWY, TUV SUD Industrie Service GmbH carried out two reviews of the project "Catalytic reduction of nitrous oxide in ammonia oxidation reactors at the nitric acid unit in Puławy, Poland".

On January 2nd and January 17th 2013, acting pursuant to a Decision of the Minister of Environment of December 12th 2012, the National Centre for Emissions Balancing and Management (KOBIZE) transferred ERU rights valued at PLN 9.7m to foreign purchasers.

Further transfers took place on March 18th and April 29th 2013, when KOBIZE, acting pursuant to Decisions of the Minister of Environment of March 1st and April 24th 2013, transferred ERU rights valued at PLN 12.7m to foreign purchasers.

Grupa Azoty PULAWY did not receive payment for the supplied ERU rights for a total amount of EUR 2.97m. On December 18th 2013, the company submitted a motion for arbitration to the Arbitration Court at the International Chamber of Commerce in London.

In 2013, Grupa Azoty PULAWY’s revenue from sales of ERUs totalled PLN 22.8m.

In 2013, Grupa Azoty ZAK S.A. settled the last ERU allocation round as part of the “Reduction of nitrous oxide emissions at the nitric acid unit of Zaklady Azotowe Kędzierzyn S.A.” project. According to the verification report of March 5th 2013 for the period from March 6th 2012 to December 31st 2012, revenue derived by Grupa Azoty ZAK S.A. from sales of ERUs was EUR 11 thousand.

Verification of CO₂ emissions
Audits were carried out in all Grupa Azoty Group companies in early 2013 to verify the level of CO₂ emissions in 2012. The audits 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. All companies settled the emissions using the statutory amounts of both EUA and CER units.

All Grupa Azoty Group companies plan to carry out audits in Q1 2014, to verify the 2013 CO$_2$ emission volumes and be able to redeem the rights based on audit reports within the statutory deadline of April 30th 2014.

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

Certificates of origin for electricity
In early 2013, audits were conducted at the Grupa Azoty Group to verify the data contained in the reports requesting issue of certificates of origin for co-generated energy produced in 2012, submitted to the President of the Energy Regulatory Office. The number of certificates allocated to the Parent and Grupa Azoty POLICE was as requested in the reports. However, explanatory proceedings before the President of URE, involving Grupa Azoty PUŁAWY and concerning the lack allotment of certificates for H2 2012 to the company, continue.

On January 31st 2014, an audit was conducted at the Parent to verify the data contained in the report requesting issue of certificates of origin for co-generated energy produced at the Parent’s CHP plant in 2013, submitted to the President of the Energy Regulatory Office. On November 11th 2013, the Parent 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 Parent expects to receive 228,603,936 proprietary rights for the certificates allocated for 2013.

Grupa Azoty POLICE has not applied for the allocation of certificates of origin for co-generated energy produced in 2013.

Similarly, Grupa Azoty PUŁAWY does not seek to obtain certificates of origin for co-generated energy produced in 2013.

Property and third-party liability insurance
On May 31st 2013, the significant companies of the Grupa Azoty Group (i.e. the Parent, Grupa Azoty PUŁAWY, 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 property insurance and third-party liability insurance, which expired on August 30th 2013 at Grupa Azoty ZAK S.A. and on December 15th 2013 at the Parent, 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 Parent and KGHM Polska Miedź S.A. of Lubin signed a letter of intent outlining general terms on which the parties may collaborate in the areas of phosphogypsum processing, acquisition of potassium 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 Parent’s strategy. In order to maintain production continuity and maximise utilisation of its production capacities, the Parent seeks to secure strategic feedstock supplies from new or alternative sources, also by forming equity relationships with suppliers.

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

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) Plant
In connection with the deteriorating performance of cash-generating units in the Plastics segment, the Group 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. 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 consolidated financial statements of the Grupa Azoty Group 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).

Volatility of exchange rates
In the first half of 2013, the Group’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 zloty 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 Group’s performance given its positive net currency exposure in EUR and 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 Group 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 Group’s hedging tools were EUR swap forwards, and to a lesser extent, USD swap forwards, reflecting its planned net exposure in both currencies.
The Grupa Azoty Group earned a PLN 6,739 thousand gain on hedging transactions realised in the twelve months of 2013, and a PLN 373 thousand gain on revaluation of cash-flow hedges.

On non-hedged net currency exposure, the Group reported a PLN 903 foreign exchange gain, and a PLN 9,169 thousand surplus of foreign-currency income over expenses. In total, during the twelve months of 2013, the Group’s total result on foreign exchange differences and currency derivative transactions (taking into account revaluation as at the end of the reporting period) was PLN 17,184 thousand (including PLN 7,642 thousand on realised foreign exchange differences and hedging transactions and PLN 9,542 thousand on unrealised items).

In the twelve months of 2013, the Group had a PLN 49 thousand realised gain on valuation of interest rate hedging instruments (collar transactions for EUR-denominated loans).

In the same period, the Group reported a PLN 619 thousand loss on valuation of instruments used to hedge the price of emission rights.

**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 RSM® as of the end of 2011 and on Ukrainian nitrate as July 2012 will further intensify competition in these product segments. 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.

Adverse developments related to the flagging demand for melamine in Europe, growing supply of melamine produced in the region with the use of cheap gas, and increased processing capacity of urea for melamine production in the fertilizer industry have resulted in intensified competition and a decline in melamine prices around the world.

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.

**5.2. Market overview**

**Agro Fertilizers**

**Agricultural market**

In 2013, the agricultural sector broadly followed the patterns seen in 2012, although the prices of most produce were in a downtrend, which was less prominent in Poland than abroad. The average synthetic business index for agriculture was 100.3pp, only 0.1pp below its 2012 value. Developments in prices of means of agricultural production in 2013 were favourable for farmers. This is confirmed by the average equalised price differential index, which went up by 0.5pp on 2012.
The market for means of agricultural production was steadily 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 may 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

![Graph showing oil seed rape, wheat, rye and corn prices from 2012 to 2013](image)

Source: Ministry of Agriculture and Rural Development

**Nitrogen fertilizers**

In 2013, the fertilizer market was affected by the low sentiment in agriculture, caused by sagging crop prices. The price decreases were attributable to high grain harvest forecasts both in the European Union and globally. Fertilizer producers remained under pressure in the first half of the year as farmers found nitrate fertilizers too expensive. Fertilizer purchases postponed by farmers until prices go down on lower domestic gas tariffs, delayed disbursement of subsidies from the Agency for Restructuring and Modernisation of Agriculture and unfavourable weather conditions were the principal factors affecting demand for nitrate fertilizers. Inclement weather drove a slowdown in sales in other European countries as well. This was further exacerbated by a steep fall in the prices of urea, which emerged as a popular replacement for nitrate fertilizers, putting pressure on fertilizer prices. The situation on the demand side improved markedly only at the end of the year, when nitrate fertilizer producers (including Grupa Azoty) announced several substantial price reductions.

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, which are disbursed in a timely manner this year and which should enable Poland's agricultural sector to regain high purchasing power.
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 2013. 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®
Also prices of Saletrosan® (ammonium sulfate nitrate) decreased year on year, with the decline correlated with downward movements in the prices of other fertilizers.

Sources: ICIS, FMB.
Ammonia and urea prices

Sources: ICIS, FMB.

Urea
Most of 2013 saw extended decline of urea prices, attributable mainly to speculative attitudes of key global users designed to suppress demand (by postponing urea purchases) and to exert downward price pressure. Another reason was financial constraints faced by the governments in India and Indonesia, the two largest consumers of urea in Asia, where the agricultural sector is subsidised and relies on the availability of state funding. On the supply side, of key importance, especially in the third quarter of the year, was the then-effective temporary lifting of customs duties on urea from China, which had built up huge export volumes. The situation did not improve until Q4 2013. With demand rising in the US, Europe and Africa, and with the Indian market beginning to absorb some of the inventory build-up, supply went low, triggering a rebound in the market prices of urea. UREA supply also dwindled as some unprofitable manufacturers cut output or shut down production altogether. Re-launch of shut-down process units were further postponed in Eastern Europe, and supplies from North Africa were limited.

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.

UAN
In contrast to the year before, the highest prices of urea-ammonium nitrate solution (UAN) 30% N were recorded in France (the largest consumer in Europe) in the first half of 2013. The prices were closely linked to urea prices. In 2013, the annual average price of UAN was about 2% lower than in 2012. With figures for the second half of 2012 and 2013 compared, the price was down approximately 25% year on year. The price declines occurred despite moderate supply pressure following UAN output reductions in Trinidad, Romania and Lithuania.

The average UAN price was EUR 194/t in 2013, down approximately 14% on 2012.
Prices of NPK, DAP, potassium salt and phosphate rock

![Graph showing prices of NPK, DAP, potassium salt and phosphate rock over time]

Sources: FMB, FERTECON

**NPK fertilizers**

Domestic demand for NPK fertilizers remained sluggish for the most part of 2013, with a brief pick-up recorded in the spring season, which was interrupted by a month-long spell of winter weather. The distributors in Poland were left with large excess inventories of NPK fertilizers after the spring season ended. In the second quarter of the year, manufacturers introduced substantial price discounts as incentive for customers to accumulate fertilizer stocks for autumn application.

A sharp 30%–40% slide in the prices of crops (grain, rapeseed, corn) in mid-June 2013 kept demand for NPK fertilizers low for the remainder of the year. With their revenues falling dramatically, farmers cut back on purchases of NPK fertilizers in the first place. Warm weather in September extended the sowing season, increasing demand in some regions.

Throughout the year, Polish manufacturers had to face competition from attractively priced NPK fertilizers from Russia, Lithuania and Belarus.

**DAP fertilizers**

Save for a brief recovery and the related growth in prices in the spring, the DAP fertilizers market was dominated by slow demand and retreating prices throughout 2013, as the largest importers, India and Brazil, reduced purchase volumes. The world’s leading manufacturers in Morocco, Tunisia, Jordan, Saudi Arabia, China, Lithuania and the US implemented temporary reductions in capacity utilisation, in some cases by as much as 50–60%. Demand picked up and prices declines stopped only at the end of the year.

**Potassium salt (KCl)**

Potassium salt producers cut the prices of the product by around USD 50/t in January 2013 compared with December 2012, to spur demand. In July 2013, Uralkali and Belaruskali, together holding a 40% share in the global potassium salt market through a joint venture BPC, broke up their trade relations. Uralkali announced significant price reductions, affecting potash markets around the world. The termination of the alliance and dissolution of BPC had serious implications for the market. The share prices of the largest global potassium salt manufacturers dropped 25%, and the prices of the product itself were on a steady decline for the rest of the year. Having very large stocks, potassium salt manufacturers significantly reduced their output in the second half of 2013. In North America, four potash mines were temporarily shut down, operations at two mines in Belarus were stopped, and APC of Jordan limited output for an indefinite period, reducing it by 20%. 

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Phosphates
Along with the movements in prices on the DAP market, phosphate prices fluctuated quarterly, reflecting trends in spot transactions. At the end of 2013, the official price quoted by the leading exporter, OCP of Morocco, were in the range between USD 100/t and USD 115/t (FOB Morocco), but actual transactions were executed at much lower prices of USD 80−90/t. Similar price reductions were offered by other phosphate producers in North Africa.

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 market’s available benzene volumes were in constant decline. 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. At the same time, the unstable supply and demand situation and speculative translations drive feedstock prices up.

The average annual contract price of FOB NWE benzene quoted by ICIS in 2013 was EUR 998/tonne, up approximately 2% year on year. Benzene prices on the European market depended on the demand in other market segments using the chemical for purposes other than caprolactam production (chiefly as a fuel additive or by the styrene industry). This had adverse consequences for caprolactam producers, forcing them to accept unfavourable feedstock prices without the ability to increase the prices of plastics at the same time.

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. Due to weaker demand for key phenol-based products, the largest European manufacturers had to temporarily reduce their phenol output. This slowdown affected the end markets 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 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.

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

![Propylene prices chart]

Source: ICIS.

Propylene
The beginning of 2013 saw rising propylene prices, which was a consequence of very high crude oil prices. In March, decreasing prices of naphtha, which is the key feedstock in propylene production, accompanied by depressed demand for the feedstock resulted in a gradual decrease in propylene prices. The prices picked up again in August and September, eventually regaining more stable levels towards the end of the year in response to lower crude oil prices on global markets. At the end of 2013, propylene prices stabilised at approximately EUR 1,100/tonne.

Oxo alcohols and plasticizers
Given the adverse market conditions, demand for key oxo alcohols (2-EH and N-Butanol) was satisfactory, which for the most part allowed product prices to be adjusted proportionately to feedstock prices. Deepening structural changes on the plasticizers market, which is one of the key markets for 2-EH sales, constituted an important factor. Terephthalate (DOTP) became a considerably more frequent substitute for dioctyl phthalate (DEHP), which contributed to a markedly depressed DEHP demand across all European markets. As a result of the growing popularity of DOTP, 2-EH manufacturers were able to increase sales. The changing plasticizers market was also affected by growing imports of competitively-priced DOTP from Asia, which eroded regional manufacturers’ competitive position. The situation was reflected in reduced feedstock purchases and an increased pressure on prices in the second half of the year.

The demand for Oxoplast O (DEHP), which is one of the products of the segment, dropped considerably, while intense competition between producers of other plasticizers (DINP, DPHP,
DOTP) over market shares led to a price war, which markedly decreased DEHP production profitability.

Prices of melamine and hydrogen peroxide (100% solution)

Source: ICIS, Global Bleaching Chemicals.

Melamine

In early 2013, the European melamine market saw a 10% increase in contract prices, which remained stable until mid-year and decreased 6% in the following quarters.

No significant negative shifts in demand or supply were seen in 2013. Demand for melamine only decreased in summer and winter, which are typically periods of weaker market activity. As supply was also lower at that time, the melamine market remained stable.

Hydrogen peroxide

In early 2013, hydrogen peroxide contract prices increased by an average of EUR 15/tonne, depending on location, end users and order lead times. Demand and supply remained in balance throughout the year. A slight decrease in the demand from the paper and pulp industry was offset by stronger demand for the product from chemical, mining and environmental protection industries. In fact, the overall demand was even higher than the year before. Supply also held steady, excluding minor maintenance works on production units, which had little effect on the product’s output.

Market prices of titanium white and ilmenite

Sources: ICIS, CCM.
Ilmenite and titanium slag
Lower consumption and falling titanium white prices forced feedstock suppliers to reduce prices. In 2013, average ilmenite and titanium slag prices decreased by ca. 50% and 26%, respectively. However, the decrease was not sufficient to support any improvement of titanium white production profitability, as it was only in late 2013 that ilmenite to titanium white price ratios were on par with those recorded several years ago.

Titanium white
In 2013, global titanium white prices remained at low but stable levels. In the US and Europe, which are the largest consumers of the product, demand was limited as a result of the persistent weakness of the paints, varnishes, plastics, and automotive industries. Lower demand was also recorded in China (30% of titanium white's global output), which was attributable to a decline in consumer goods exports. Japan’s ISK, which counts among the largest titanium white producers, permanently closed one of its production plants. There was no seasonal increase in titanium white sales in the period from May to August.

Sulfur prices

Source: FERTECON.

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 phosphate fertilizers market and the increased supply of petrochemical sulfur. Prices continued to fall until late 2013, when the downward trend lost momentum following an increase in demand for phosphate fertilizers.

Energy

Electricity
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 CO₂ 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.

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. 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. Polish coal producers kept in line with the global trend by lowering coal prices. The trend had a positive effect on 2014 contracts executed by the Group companies.
Grupa Azoty Group

Natural gas
PGNiG continued to be the Grupa Azoty Group’s key strategic natural gas supplier in 2013, supplying the Group with high-methane gas under long-term contracts and nitrogen-rich gas from local sources.

Aiming to diversify its supplies, the Group imported natural gas using the reverse flow on the Yamal pipeline and the Lasów interconnector.

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

- 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,
- changes to secondary legislation and transmission grid codes, in accordance with EU guidelines and directives,
- setting the deadline for adjusting supply contracts to incorporate customer’s ability to change the supplier or re-sell the gas,
- exemption from the tariff obligation for individual groups of commercial customers,
- capacity expansions at interconnectors and auction-based allocation of new capacities.

These factors may also affect the Company’s ability to engage new suppliers, reduce the share of gas delivered by the main supplier and change supply management methods.

5.3. Key financial and economic data

5.3.1. Consolidated data

For 2013, Grupa Azoty posted a positive EBITDA of PLN 737,353 thousand and a net profit of PLN 713,525 thousand.

Year on year, these figures grew by PLN 126,029 thousand and PLN 398,224 thousand, respectively.

The acquisition of Grupa Azoty PUŁAWY had a significant impact on the financial performance.

The table below compares the key items in the consolidated 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>9,821,023</td>
<td>7,098,735</td>
<td>2,722,288</td>
<td>38.3</td>
</tr>
<tr>
<td>Cost of sales</td>
<td>(8,436,709)</td>
<td>(6,107,680)</td>
<td>(2,329,029)</td>
<td>38.1</td>
</tr>
<tr>
<td>Gross profit</td>
<td>1,384,314</td>
<td>991,055</td>
<td>393,259</td>
<td>39.7</td>
</tr>
<tr>
<td>Selling and distribution expenses</td>
<td>(447,750)</td>
<td>(181,916)</td>
<td>(265,834)</td>
<td>146.1</td>
</tr>
<tr>
<td>Administrative expenses</td>
<td>(706,391)</td>
<td>(390,733)</td>
<td>(315,658)</td>
<td>80.8</td>
</tr>
<tr>
<td>Profit from sales</td>
<td>230,173</td>
<td>418,406</td>
<td>(188,233)</td>
<td>(45.0)</td>
</tr>
<tr>
<td>Other expenses</td>
<td>(42,986)</td>
<td>(46,674)</td>
<td>3,688</td>
<td>(7.9)</td>
</tr>
<tr>
<td>EBIT</td>
<td>187,187</td>
<td>371,732</td>
<td>(184,545)</td>
<td>(49.6)</td>
</tr>
<tr>
<td>Gain from a bargain purchase</td>
<td>515,438</td>
<td>-</td>
<td>515,438</td>
<td>x</td>
</tr>
<tr>
<td>Operating profit</td>
<td>702,625</td>
<td>371,732</td>
<td>330,893</td>
<td>89.0</td>
</tr>
<tr>
<td>Net finance income</td>
<td>17,536</td>
<td>4,069</td>
<td>13,467</td>
<td>331.0</td>
</tr>
<tr>
<td>Share of profit of equity-accounted associates</td>
<td>12,361</td>
<td>8,549</td>
<td>3,812</td>
<td>44.6</td>
</tr>
<tr>
<td>Profit before tax</td>
<td>732,522</td>
<td>384,350</td>
<td>348,172</td>
<td>90.6</td>
</tr>
<tr>
<td>Income tax</td>
<td>(18,443)</td>
<td>(69,049)</td>
<td>50,606</td>
<td>(73.3)</td>
</tr>
<tr>
<td>Net profit from continuing operations</td>
<td>714,079</td>
<td>315,301</td>
<td>398,778</td>
<td>126.5</td>
</tr>
<tr>
<td>Loss from discontinued operations</td>
<td>(554)</td>
<td>-</td>
<td>(554)</td>
<td>x</td>
</tr>
<tr>
<td>Net profit</td>
<td>713,525</td>
<td>315,301</td>
<td>398,224</td>
<td>126.3</td>
</tr>
<tr>
<td>EBIT</td>
<td>187,187</td>
<td>371,732</td>
<td>(184,545)</td>
<td>(49.6)</td>
</tr>
</tbody>
</table>
The year-on-year increase in revenue is attributable to the Grupa Azoty Group having generated higher sales in its Agro Fertilizers, Plastics and Chemicals segments. As the Grupa Azoty Group's revenue grew faster than its cost of sales, the Group earned a gross profit, which helped achieve a net profit for the period. However, due to higher selling and distribution expenses and administrative expenses, the gross profit was lower year on year.

In 2013, the balance of other income and other expenses was negative, at PLN (42,987) thousand, which adversely affected EBIT.

A PLN 515,438 thousand gain from the bargain purchase of shares in Grupa Azoty PUŁAWY, Grupa Azoty SIARKOPOL and AIG S.A. of Senegal contributed to the Grupa Azoty Group's operating profit. The Group posted a net profit from financing activities.

### 5.3.2. Segment results

#### EBIT by segment

<table>
<thead>
<tr>
<th>Item</th>
<th>2013</th>
<th>2012</th>
<th>change</th>
<th>% change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Depreciation and amortisation</td>
<td>550,166</td>
<td>239,592</td>
<td>310,574</td>
<td>129.6</td>
</tr>
<tr>
<td>EBITDA</td>
<td>737,353</td>
<td>611,324</td>
<td>126,029</td>
<td>20.6</td>
</tr>
</tbody>
</table>

Source: Company data.

*EBIT: operating profit/(loss) presented in the statement of profit and loss and other comprehensive income, adjusted for gain from a bargain purchase.

Sales of the Grupa Azoty Group's products in 2013 were determined primarily by the market situation in the Agro Fertilizers, Chemicals and Plastics segments. Among the segments whose year-on-year increase in revenue was the most significant are Energy (66.3%), Chemicals (59.6%) and Agro Fertilizers (33.9%). The smallest increase in revenue (29.9%) was recorded in the Plastics segment. Shares of the individual segments in the overall revenue structure remained relatively unchanged compared with 2012.
Grupa Azoty Group

Director's Report on the Operations of the Grupa Azoty Group for the 12 months ended December 31st 2013
(all figures in PLN '000, unless indicated otherwise)

Revenue by segment

Source: Company data.

Agro Fertilizers
In 2013, revenue in the Agro Fertilizers segment was PLN 5,565,074 thousand and accounted for 56.7% of the Group's total revenue. The revenue grew year on year following acquisition of Grupa Azoty PUŁAWY and a rise in sales generated by other companies of the Grupa Azoty Group. Most of the revenue was derived from the domestic market, which accounted for 71.8% of the total fertilizer sales.

Plastics
In 2013, revenue in the Plastics segment was PLN 1,466,548 thousand and accounted for 14.9% of the Group's total revenue. Although sales grew by more than 29.94% year on year, impairment testing carried out by the Parent and the subsequent recognition of impairment losses translated into a considerable increase in expenses, which in turn resulted in a loss for the segment. More than 90% of the segment's revenue was derived from foreign markets.

Chemicals
The Chemicals segment includes the former OXO segment, as well as the new products added to the Grupa Azoty Group's offering following the Grupa Azoty PUŁAWY acquisition. Revenue in this segment reached PLN 2,385,331 thousand, up by 59.6%, which represented 24.3% of the Group's total revenue. Despite the revenue growth, the costs incurred in the segment's operations resulted in a negative EBIT for 2013.

Energy
Energy Segment comprises activities involving production of electricity and heat for the purposes of the chemical installations and contract-based sale of electricity to customers connected to the power network. In 2013, the revenue generated by the new Energy segment, which was previously reported as part of Other Activities, was PLN 265,516 thousand and accounted for 2.7% of the Group's total revenue.

Other Activities
In 2013, the Other Activities segment's revenue decreased slightly year on year, to PLN 138,554 thousand. The lower revenue, loss on sales and the segment's costs resulted in a negative EBIT.
Sales by product group

Revenue by product group

Source: Company data.

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

Year on year, revenue from sales of nitrogen fertilizers increased considerably following acquisition of Grupa Azoty PULAWY. Chemical and melamine sales account for the remaining portion of the revenue.
Compared with 2012, the share of nitrogen fertilizers in revenue increased markedly, from 29% to 37.5%, while a decrease was recorded in revenue from sales of compound fertilizers (from 24.3% to 15.4%), plastics and intermediates (from 15.7% to 14.1%), and oxo alcohols and plasticizers (from 14.8% to 9.4%). To note, however, these products continue to contribute considerably to the Grupa Azoty Group’s total revenue.

Following the acquisition of Grupa Azoty PULAWY, melamine became a new product in the revenue structure, accounting for 4% of the total revenue in 2013.
5.3.3. Operating expenses

In 2013, operating expenses were PLN 9,431,985 thousand, up by PLN 2,746,109 thousand year on year. The most significant growth, by PLN 1,534,471 thousand, was recorded in raw materials and consumables used, the largest cost item. There was also a considerable increase in services. Costs were also higher due to increase in prices of key feedstocks and their higher consumption caused by the larger scale of production operations (following the acquisition of Grupa Azoty PULAWY).

Operating expenses

<table>
<thead>
<tr>
<th></th>
<th>2013</th>
<th>2012</th>
<th>change</th>
<th>% change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Depreciation and amortisation</td>
<td>550,166</td>
<td>239,592</td>
<td>310,574</td>
<td>129.6</td>
</tr>
<tr>
<td>Raw materials and consumables used</td>
<td>6,621,853</td>
<td>5,087,382</td>
<td>1,534,471</td>
<td>30.2</td>
</tr>
<tr>
<td>Services</td>
<td>875,081</td>
<td>416,238</td>
<td>458,843</td>
<td>110.2</td>
</tr>
<tr>
<td>Salaries and wages, including overheads, and other benefits</td>
<td>1,055,808</td>
<td>701,419</td>
<td>354,389</td>
<td>50.5</td>
</tr>
<tr>
<td>Taxes and charges</td>
<td>230,699</td>
<td>170,731</td>
<td>59,968</td>
<td>35.1</td>
</tr>
<tr>
<td>Other expenses</td>
<td>98,378</td>
<td>70,514</td>
<td>27,864</td>
<td>39.5</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>9,431,985</strong></td>
<td><strong>6,685,876</strong></td>
<td><strong>2,746,109</strong></td>
<td><strong>41.1</strong></td>
</tr>
</tbody>
</table>

Source: Company data.

Raw materials and consumables used

In 2013, the cost of raw materials and consumables used was 30.2% higher year on year. Contributing to the increase was the addition of a new entity to the Group. The change also resulted in a 100% increase in gas consumption.

Raw materials and consumables used at the Grupa Azoty Group

<table>
<thead>
<tr>
<th></th>
<th>2013</th>
<th>2012</th>
<th>change</th>
<th>% change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Parent Group</td>
<td>1,007,121</td>
<td>1,129,509</td>
<td>(122,388)</td>
<td>(10.8)</td>
</tr>
<tr>
<td>Grupa Azoty ZAK S.A.</td>
<td>1,474,390</td>
<td>1,542,374</td>
<td>(67,984)</td>
<td>(4.4)</td>
</tr>
<tr>
<td>Group</td>
<td>2,236,427</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Grupa Azoty PULAWY Group</td>
<td>1,723,372</td>
<td>2,316,935</td>
<td>(593,563)</td>
<td>(25.6)</td>
</tr>
<tr>
<td>Grupa Azoty POLICE</td>
<td>180,543</td>
<td>98,564</td>
<td>81,979</td>
<td>83.2</td>
</tr>
<tr>
<td>Other Group companies</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>6,621,853</strong></td>
<td><strong>5,087,382</strong></td>
<td><strong>1,534,471</strong></td>
<td><strong>30.2</strong></td>
</tr>
</tbody>
</table>

Source: Company data.

The Grupa Azoty PULAWY Group accounted for the largest share of raw materials and consumables used in 2013 (33.8% of total costs).

The Grupa Azoty POLICE Group incurred costs of PLN 1,723,372 thousand (26% of total costs).

The Parent’s costs fell 10.8% year on year, to PLN 1,007,121 thousand.

Other Group companies accounted for 2.7% of total costs.
Structure of raw materials and consumables used at the Grupa Azoty Group

### 2013

- **Parent**: 2.7%
- **ZAK Group**: 11.6%
- **POLICE Group**: 22.3%
- **PULAWY Group**: 33.8%
- **Other Grupa Azoty Group companies**: 26.0%

### 2012

- **Parent**: 1.9%
- **ZAK Group**: 22.2%
- **POLICE Group**: 45.5%
- **Other Grupa Azoty Group companies**: 30.3%

Source: Company data.
Other expenses
Net of raw materials and consumables used, in 2013 other expenses represented 29.8% of total expenses, vs. 23.9% in 2012.

### Other expenses [%]

<table>
<thead>
<tr>
<th></th>
<th>2013</th>
<th>2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>Depreciation and amortisation</td>
<td>5.8</td>
<td>3.6</td>
</tr>
<tr>
<td>Services</td>
<td>9.3</td>
<td>6.2</td>
</tr>
<tr>
<td>Salaries and wages, including overheads, and other benefits</td>
<td>11.2</td>
<td>10.5</td>
</tr>
<tr>
<td>Taxes and charges</td>
<td>2.5</td>
<td>2.6</td>
</tr>
<tr>
<td>Other expenses</td>
<td>1.0</td>
<td>1.1</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>29.8</strong></td>
<td><strong>23.9</strong></td>
</tr>
</tbody>
</table>

Source: Company data.

An analysis of the changes in the structure of other costs reveals:
- higher share of depreciation/amortisation in the global cost structure,
- higher costs of services,
- higher costs of labour,
- lower taxes and charges,
- lower other expenses.

### 5.3.4. Structure of assets, equity and liabilities

In 2013, the Group’s assets rose to PLN 9,961,530 thousand, up 86.0% on the end of 2012. As at December 31st 2013, non-current assets were PLN 6,635,580 thousand, and current assets were PLN 3,325,950 thousand.

The increase in assets, equity and liabilities was attributable mainly to the acquisition of Grupa Azoty PUŁAWY.

Year on year, the most significant changes in assets in 2013 included:
- a 182.3% increase in intangible assets,
- a 103.5% increase in property, plant and equipment,
- a 91.8% decrease in investments available for sale,
- a 39.4% increase in inventories,
- an 87.8% increase in trade and other receivables,
- a 192.9% increase in cash and cash equivalents.
### Structure of assets

<table>
<thead>
<tr>
<th>Item</th>
<th>2013</th>
<th>2012* restated</th>
<th>change</th>
<th>% change</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Non-current assets, including:</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Property, plant and equipment</td>
<td>5,791,013</td>
<td>2,845,691</td>
<td>2,945,322</td>
<td>103.5</td>
</tr>
<tr>
<td>Intangible assets</td>
<td>516,099</td>
<td>182,847</td>
<td>333,252</td>
<td>182.3</td>
</tr>
<tr>
<td>Investment property</td>
<td>53,374</td>
<td>28,903</td>
<td>24,471</td>
<td>84.7</td>
</tr>
<tr>
<td>Investments in subordinated entities</td>
<td>128,944</td>
<td>80,132</td>
<td>48,812</td>
<td>60.9</td>
</tr>
<tr>
<td>Available-for-sale financial assets</td>
<td>23,989</td>
<td>283,202 (259,213)</td>
<td>(91.5)</td>
<td></td>
</tr>
<tr>
<td><strong>Current assets, including:</strong></td>
<td>1,325,950</td>
<td>1,804,389</td>
<td>1,521,561</td>
<td>84.3</td>
</tr>
<tr>
<td>Inventories</td>
<td>1,170,626</td>
<td>839,561</td>
<td>331,065</td>
<td>39.4</td>
</tr>
<tr>
<td>Trade and other receivables</td>
<td>1,273,112</td>
<td>677,927</td>
<td>595,185</td>
<td>87.8</td>
</tr>
<tr>
<td>Cash and cash equivalents</td>
<td>713,024</td>
<td>243,440</td>
<td>469,584</td>
<td>192.9</td>
</tr>
<tr>
<td>Other financial assets</td>
<td>106,822</td>
<td>19,079</td>
<td>87,743</td>
<td>459.9</td>
</tr>
<tr>
<td><strong>Total assets</strong></td>
<td>9,961,530</td>
<td>5,357,041</td>
<td>4,604,489</td>
<td>86.0</td>
</tr>
</tbody>
</table>

Source: Company data.

* Financial information restated for changes in CO₂ emission rights accounting as presented in Note 2.3 to the annual consolidated financial statements of the Grupa Azoty Group for the twelve months ended December 31st 2013.

Year on year, the most significant changes in equity and liabilities in 2013 included:
- a 79.6% increase in equity,
- an 118.9% increase in non-current borrowings,
- an 82.2% increase in non-current liabilities under employee benefits,
- an 88.4% increase in trade and other payables,
- a 202.0% increase in current liabilities under borrowings.

### Structure of equity and liabilities

<table>
<thead>
<tr>
<th>Item</th>
<th>2013</th>
<th>2012* restated</th>
<th>change</th>
<th>% change</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Equity</strong></td>
<td>6,270,651</td>
<td>3,490,698</td>
<td>2,779,953</td>
<td>79.6</td>
</tr>
<tr>
<td><strong>Non-current liabilities, including:</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Borrowings</td>
<td>1,412,617</td>
<td>718,725</td>
<td>693,892</td>
<td>96.5</td>
</tr>
<tr>
<td>Employee benefits</td>
<td>634,693</td>
<td>289,979</td>
<td>344,714</td>
<td>118.9</td>
</tr>
<tr>
<td>Other provisions</td>
<td>119,343</td>
<td>118,622</td>
<td>721</td>
<td>0.6</td>
</tr>
<tr>
<td><strong>Current liabilities, including:</strong></td>
<td>2,278,262</td>
<td>1,147,618</td>
<td>1,130,644</td>
<td>98.5</td>
</tr>
<tr>
<td>Trade and payables</td>
<td>1,313,547</td>
<td>697,317</td>
<td>616,230</td>
<td>88.4</td>
</tr>
<tr>
<td>Other provisions</td>
<td>604,140</td>
<td>200,017</td>
<td>404,123</td>
<td>202.0</td>
</tr>
<tr>
<td><strong>Total liabilities</strong></td>
<td>3,609,879</td>
<td>1,866,343</td>
<td>1,824,536</td>
<td>97.8</td>
</tr>
<tr>
<td><strong>Total equity and liabilities</strong></td>
<td>9,961,530</td>
<td>5,357,041</td>
<td>4,604,489</td>
<td>86.0</td>
</tr>
</tbody>
</table>

Source: Company data.

* Financial information restated for changes in CO₂ emission rights accounting as presented in Note 2.3 to the annual consolidated financial statements of the Grupa Azoty Group for the twelve months ended December 31st 2013.

### 5.4. Financial ratios

#### Profitability

The profitability ratios for 2013 showed varied year-on-year dynamics. Gross margin increased by 0.1 pp, as growth of gross profit (up 39.7%) was stronger than increase in revenue (up 38.3%). Lower EBIT and EBITDA margins are attributable to the decline in operating profit (down 49.4%) and a simultaneous 38.3% increase in revenue.
The dynamics of changes of net margin was different. The margin increased as net profit more than doubled, while revenue growth was much more modest.

The return on assets followed a similar pattern, with net profit growing much faster than assets.

In the reporting period, return on capital employed fell, mainly as a result of EBIT growing slower than capital employed.

Other ratios increased, as net profit grew more dynamically than both equity and non-current assets.

**Profitability ratios**

<table>
<thead>
<tr>
<th></th>
<th>2013</th>
<th>2012 restated</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gross margin</td>
<td>14.1%</td>
<td>14.0%</td>
</tr>
<tr>
<td>EBIT margin</td>
<td>1.9%</td>
<td>5.2%</td>
</tr>
<tr>
<td>EBITDA margin</td>
<td>7.5%</td>
<td>8.6%</td>
</tr>
<tr>
<td>Net margin</td>
<td>7.3%</td>
<td>4.4%</td>
</tr>
<tr>
<td>Return on assets</td>
<td>7.2%</td>
<td>5.9%</td>
</tr>
<tr>
<td>Return on capital employed</td>
<td>2.4%</td>
<td>8.8%</td>
</tr>
<tr>
<td>ROE</td>
<td>11.4%</td>
<td>9.0%</td>
</tr>
<tr>
<td>Return on non-current assets</td>
<td>10.8%</td>
<td>8.9%</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 Group's current ratio remained flat year on year, while the other ratios increased.

The quick ratio increased only slightly. The growth of the cash ratio was more significant as cash and cash equivalents grew more dynamically than current liabilities.
Liquidity ratios

<table>
<thead>
<tr>
<th></th>
<th>2013</th>
<th>2012 restated</th>
</tr>
</thead>
<tbody>
<tr>
<td>Current ratio</td>
<td>1.5</td>
<td>1.5</td>
</tr>
<tr>
<td>Quick ratio</td>
<td>0.9</td>
<td>0.8</td>
</tr>
<tr>
<td>Cash ratio</td>
<td>0.3</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 at PLN 1,047,688 thousand.

Changes in working capital

Operating efficiency

Inventory turnover increased primarily due to an increase in inventories. The average collection period extended to 47 days. At the same time, higher payables turnover, caused mainly by an increase in payables against cost of sales (mainly commodities prices), led to a decrease in the cash conversion cycle to 41 days, which is beneficial to the Group and is also reflected in liquidity ratios.

Operating efficiency ratios

<table>
<thead>
<tr>
<th></th>
<th>2013</th>
<th>2012 restated</th>
</tr>
</thead>
<tbody>
<tr>
<td>Inventory turnover</td>
<td>50</td>
<td>49</td>
</tr>
<tr>
<td>Average collection period</td>
<td>47</td>
<td>34</td>
</tr>
<tr>
<td>Average payment period</td>
<td>56</td>
<td>41</td>
</tr>
<tr>
<td>Cash conversion cycle</td>
<td>41</td>
<td>42</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 remained at a level ensuring the Group's good credit standing and full ability to service debt throughout the period.

Debt ratios

<table>
<thead>
<tr>
<th>Ratio</th>
<th>2013</th>
<th>2012 restated</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total debt ratio</td>
<td>37.1%</td>
<td>34.8%</td>
</tr>
<tr>
<td>Long-term debt ratio</td>
<td>14.2%</td>
<td>13.4%</td>
</tr>
<tr>
<td>Short-term debt ratio</td>
<td>22.9%</td>
<td>21.4%</td>
</tr>
<tr>
<td>Equity-to-debt ratio</td>
<td>169.9%</td>
<td>187.0%</td>
</tr>
<tr>
<td>Interest cover ratio</td>
<td>1,625.4%</td>
<td>1,384.3%</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 = [EBIT + interest expense] / interest expense

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

No forecasts for 2013 were published.
On February 27th 2014, the Parent announced the Group’s estimated consolidated financial highlights for 2013:
- revenue: PLN 9,821m,
- operating profit: PLN 702m,
- net profit: PLN 713m.

The estimates are based on the Management Board’s preliminary data on the financial performance of the Parent and its subsidiaries in the period from January to December 2013. The estimates were made based on the Management Board’s best knowledge on the date of their estimation, on the assumption that no circumstances would arise or be revealed which could materially affect the financial results after publication of the estimates, such as, in particular, impairment losses on assets, including receivables, recognition of provisions, complaints or other similar events.

The Parent’s Management Board decided to announce the estimated consolidated performance figures at the time of release of 2013/2014 half-year consolidated report by Grupa Azoty Zakłady Azotowe Putawy S.A., a subsidiary of the Parent, on February 27th 2014.

Following publication of the Parent’s estimated consolidated financial highlights for 2013, the Management Board of Grupa Azoty POLICE, a subsidiary, decided to announce the following estimated consolidated financial results of Grupa Azoty POLICE on February 27th 2014:
- revenue: PLN 2,464m,
- operating profit: PLN 56m,
- net profit: PLN 50m.
The estimates are based on the Management Board's preliminary data on the financial performance of Grupa Azoty POLICE and its subsidiaries in the period from January to December 2013. The estimates were made based on the Management Board’s best knowledge on the date of their estimation, on the assumption that no circumstances would arise or be revealed which could materially affect the financial results after publication of the estimates, such as, in particular, impairment losses on assets, including receivables, recognition of provisions, complaints or other similar events.

5.6. Management of capital and assets

In 2013, the Grupa Azoty Group successfully financed all of its key consolidation, acquisition and investment projects, using mainly free operating cash flows and proceeds from long-term investment credit facilities incurred by the Parent to finance equity investments (acquisition of shares Grupa Azoty PULAWY and Grupa Azoty SIARKPOL) and investments in asset (construction of hydrogen facility and upgrade of sulfuric acid facility). Furthermore, in 2013 Grupa Azoty POLICE, a subsidiary, contracted loans from the National Fund for Environmental Protection and Water Management (NFOŚiGW) and the Provincial Fund for Environmental Protection and Water Management (WFOŚiGW) to finance investments in property, plant and equipment related to power projects and ammonia production units, which are expected to produce additional environmental benefits.

During the year, the Grupa Azoty Group increased its borrowings from PLN 492,877 thousand to PLN 1,238,833 thousand. However, the Group maintains a considerable cash surplus of PLN 713,024 thousand as at December 31st 2013, and therefore its liquidity risk is very low. The Group also had access to available overdraft and multi-purpose credit facilities and investment credit facilities (PLN 550,065 thousand as at December 31st 2013), which further mitigates liquidity risk.

In 2013, there were no events of default, whether relating to timely repayment of liabilities or other conditions, that could result in acceleration of the debt. In 2013, the Group was not refused any bank borrowings and none of its credit facility agreements was terminated.

The Grupa Azoty Group companies have a sound liquidity position and creditworthiness and enjoy high credit standing with their strategic lenders. Considering the above, even if a potential economic slowdown occurs, the Group believes that there is no threat or risk which could lead to a material impairment or to loss of liquidity.

Furthermore, as the consolidation process progressed in 2013, 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:
- the Parent’s 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 Parent’s dividend policy with respect to its subsidiaries, adapted to the financing requirements of Grupa Azoty’s 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 Parent's capital expenditure totalled PLN 135,472 thousand, of which PLN 104,003 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 35,8 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 Parent 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).

Furthermore, in 2013 Grupa Azoty POLICE used PLN 42,115 thousand under loans from the National Fund for Environmental Protection and Water Management (NFOŚiGW) and the Provincial Fund for Environmental Protection and Water Management (WFOŚiGW) to finance expenditure on environmental investments, and also received grants of PLN 1,383 thousand.

As at December 31st 2013, the Group had access to PLN 147,058 thousand available under loans granted by the NFOŚiGW and the WFOŚiGW to Grupa Azoty POLICE to finance environmental projects.

The Group's total capital expenditure in 2013 (excluding equity investments, such as acquisition of Grupa Azoty PULAWY and Grupa Azoty SIARKOPOL) was PLN 460,647 thousand (including the expenditure of the Parent, Grupa Azoty ZAK S.A., Grupa Azoty POLICE, Grupa Azoty PULAWY, Grupa Azoty ATT Polymers GmbH and Grupa Azoty SIARKOPOL). The subsidiaries (Grupa Azoty ZAK S.A. and Grupa Azoty PULAWY) financed all of the expenditure with own funds, except for Grupa Azoty POLICE, which also used loans and grants listed above.

The Group is also able to finance its investment plans using either current or expected free operating cash flows (EBITDA), or new investment credit facilities and other borrowings. Given the maximum acceptable levels of financial ratios agreed upon with the strategic lenders, the Group can further increase its 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 Group companies terminated credit facility agreements, loan agreements or other borrowing agreements.

The Grupa Azoty Group executed the following credit facility agreements or annexes to such agreements:

Annexes to the joint financing agreement between the Parent, PKO BP S.A. and PZU na Życie S.A.

On February 15th 2013, the Parent 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 Parent 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 Parent 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 performance of its obligation to establish the security, the Parent created financial and registered pledges over the acquired Grupa Azoty PULAWY shares (see section 4.10 Significant events).

On June 27th 2013, the Parent 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 Parent 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 Parent 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 Parent. Other material terms of the joint financing agreement remained unchanged.

**Annexes to the receivables discounting agreement with BRE Bank S.A.**
In 2013, the Parent 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 end of the reporting period, on January 21st 2014, the Parent executed an annex to the credit facility agreement, whereby the facility's limit was raised to EUR 18,000 thousand.

**Annex to credit facility agreements with Raiffeisen Bank Polska S.A.**
On March 26th 2013, Grupa Azoty ZAK S.A. signed the following annexes with Raiffeisen Bank Polska S.A.:
- Annex No. 2 to credit facility agreement No. CRD/34542/11 of March 23rd 2011,
- Annex No. 2 to credit facility agreement No. CRD/34518/11 of March 23rd 2011,
- Annex No. 1 to the receivables discounting agreement No. CRD/L/36714/12 of February 23rd 2012.

To standardise financial covenants under credit facility agreements at Group-level, including chiefly commitments to maintain specific debt ratios and obligations relating to the execution of transactions at the financing banks.
Annex to Grupa Azoty POLICE’s working-capital overdraft facility agreement with BGŻ S.A.
On June 26th 2013, Grupa Azoty POLICE executed an annex to the PLN 80,000 thousand working-capital overdraft facility agreement with BGŻ S.A. entered into on June 26th 2012. Under the annex, the agreement term was extended until June 30th 2015, with a simultaneous decrease in the bank's margin over 1M WIBOR.

Then, on November 15th 2013, the company terminated the agreement, which expired on January 6th 2014.

Working-capital facility agreement between Grupa Azoty POLICE and BOŚ S.A.
Grupa Azoty POLICE’s PLN 80,000 thousand multi-purpose working-capital facility agreement with Bank Ochrony Środowiska S.A. terminated after the agreement expired on June 30th 2013 and the company did not request it to be renewed.

Factoring agreement between Grupa Azoty POLICE and BOŚ S.A.
On September 30th 2013, the PLN 40,000 thousand domestic recourse factoring facility agreement between Grupa Azoty POLICE and BOŚ S.A. expired. In 2013, the company did not use factoring services under the agreement.

Factoring agreement between Grupa Azoty POLICE and PKO BP Faktoring
In June 2013, Grupa Azoty POLICE terminated its cooperation with PKO BP Faktoring under a PLN 40,000 thousand domestic non-recourse factoring agreement. In 2013, the company did not use factoring services under the agreement.

Annex to Grupa Azoty PUŁAWY’s overdraft facility agreement with BZ WBK
On July 2nd 2013, Grupa Azoty PUŁAWY and BZ WBK executed an annex to the PLN 50,000 thousand overdraft facility agreement of December 29th 2009. Under the annex, the term of the facility was extended until May 31st 2014, and commission was waived.

Annexes to the factoring agreement between the Parent and BGŻ S.A.
In 2013, the Parent executed a number of annexes to the factoring agreement to extend its term, with the final date eventually set at 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 the overdraft facility agreement with PKO Bank Polski S.A.
On August 19th 2013, the Parent, 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 Parent executed another annex to the overdraft facility agreement, which standardised the interest calculation method.

On August 19th 2013, the Parent, 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 PUŁAWY and some of its subsidiaries. Subsequent to the end of the reporting period, on February 19th 2014, the Parent, acting also on behalf of the other Group companies, executed another annex to the virtual cash-pooling agreement; the scope of the agreement was extended to include Grupa Azoty SIARKOPOL.
Annexes to multi-purpose credit facility agreements with PKO Bank Polski S.A.
The following Grupa Azoty Group companies executed annexes to multi-purpose credit facility agreements with PKO Bank Polski S.A., with a view to optimising and standardising financing terms under the agreements and extending their terms until September 30th 2016, including:

- the Parent - an annex of August 19th 2013 to the PLN 25,000 thousand credit facility agreement expiring on August 31st 2014;
- Grupa Azoty PULAWY - an annex of September 4th 2013, decreasing the credit facility amount from PLN 80,000 thousand to PLN 30,000 thousand (in connection with a PLN 50,000 thousand sub-limit granted at the same time under Grupa Azoty Group's overdraft facility), to the credit facility agreement expiring on September 5th 2013;
- Grupa Azoty ZAK - an annex of September 9th 2013 to the PLN 100,000 thousand credit facility agreement expiring on September 30th 2014;
- Grupa Azoty POLICE - an annex of October 30th 2013 to the PLN 82,000 thousand credit facility agreement expiring on September 30th 2014.

Annexes to the investment credit facility agreement between the Parent and BGŻ S.A.
On September 12th 2013, the Parent and BGŻ S.A. executed an annex to the investment credit facility agreement of March 30th 2012 used to finance the upgrade of the sulfuric acid facility. The purpose of the annex was to standardise the financial covenants under the agreement (including the consolidated ratios) to bring them in line with those applied in the other financing agreements. On September 30th 2013, the Parent executed another annex to the agreement to extend it by three months, i.e. until December 31st 2013, the deadline for disbursement of the credit facility tranches.

Subsequent to the end of the reporting period, on January 14th 2014 the Parent executed an annex to the agreement, whereby individual payments were proportionately reduced to reflect partial use of the facility.

Receivables discounting agreement between Grupa Azoty POLICE and Raiffeisen Bank Polska S.A.
On October 4th 2013, Grupa Azoty POLICE and Raiffeisen Bank Polska S.A. executed a PLN 120,000 thousand receivables discounting agreement whereby the following sub-limits were made available to the borrower: an overdraft facility of up to PLN 80,000 thousand, as well as factoring, letter of credit and guarantee facilities, each up to PLN 60,000 thousand, with a proviso that the aggregate amount used under the facilities may not exceed the main credit limit. The agreement was concluded for a period until June 15th 2015 and provides for interest accruing at 1M WIBOR plus the bank's margin. The purpose of the agreement was to replace expired financing facilities contracted by Grupa Azoty POLICE from Bank Ochrony Środowiska S.A. and to further optimise the borrowing costs of the Grupa Azoty Group.

Agreement with the National Fund for Environmental Protection and Water Management for a loan to finance upgrade of the ammonia plant
On November 5th 2013, Grupa Azoty POLICE and the National Fund for Environmental Protection and Water Management signed a PLN 90,000 thousand loan agreement to finance the upgrade of the ammonia plant. The agreement expires on December 20th 2023.

Overdraft facility agreement with BGK S.A.
On November 13th 2013, Grupa Azoty POLICE and Bank Gospodarstwa Krajowego S.A. executed a PLN 80,000 thousand overdraft facility agreement. The agreement was concluded for a period until November 12th 2016 and provides for interest accruing at 1M WIBOR plus the bank's margin. The purpose of the agreement was to replace the expired facilities available under the working-capital overdraft facility agreement contracted by Grupa Azoty POLICE with Bank Ochrony Środowiska S.A. and to further optimise the borrowing costs of the Grupa Azoty Group.

Annex to the intraday overdraft facility agreement with Bank Pekao S.A.
On November 29th 2013, Grupa Azoty PULAWY and Bank Pekao S.A. signed an annex to the intraday overdraft facility agreement. Under the annex, the PLN 2,000 thousand facility's term was extended until November 30th 2014.
Annex to a project co-financing agreement executed between Grupa Azoty PULAWY and the National Fund for Environmental Protection and Water Management

On January 3rd 2013, an annex was signed to the agreement on co-financing of the project “Construction of NOx reduction units on OP-215 boilers No. 4 and 5” at Grupa Azoty PULAWY, which rescheduled the project completion date and changed the cost qualification period. The agreement was concluded with the National Fund for Environmental Protection and Water Management in Warsaw on May 4th 2001 for an amount of PLN 4,800 thousand.

Material financing agreements executed or amended in 2013 or before 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>Annex to Grupa Azoty POLICE working-capital overdraft facility agreement with BGŻ S.A.</td>
<td>Jun 26 2012</td>
<td>Jun 26 2013</td>
<td>PLN</td>
<td>80,000</td>
</tr>
<tr>
<td>Annex to Grupa Azoty PULAWY’s overdraft facility agreement with BZ WBK</td>
<td>Dec 29 2009</td>
<td>Jul 2 2013</td>
<td>PLN</td>
<td>50,000</td>
</tr>
<tr>
<td>Annex to factoring agreement between the Parent and BGŻ S.A.</td>
<td>May 27 2011</td>
<td>May 27 2011, Aug 8 2013, Sep 12 2013</td>
<td>PLN</td>
<td>25,000</td>
</tr>
<tr>
<td>Annex to multi-purpose credit facility agreement between the Parent and PKO BP S.A.</td>
<td>Jul 5 2006</td>
<td>Aug 19 2013</td>
<td>PLN</td>
<td>25,000</td>
</tr>
<tr>
<td>Annex to multi-purpose credit facility agreement between Grupa Azoty PULAWY and PKO BP S.A.</td>
<td>Sep 8 2009</td>
<td>Sep 4 2013</td>
<td>PLN</td>
<td>30,000</td>
</tr>
<tr>
<td>Annex to multi-purpose credit facility agreement between Grupa Azoty ZAK S.A. and PKO BP S.A.</td>
<td>Mar 30 2011</td>
<td>Sep 9 2013</td>
<td>PLN</td>
<td>100,000</td>
</tr>
</tbody>
</table>
5.9. Loans granted, mainly to the Group's related parties

In the reporting period, agreements were signed under which Grupa Azoty POLICE granted loans to Supra Agrochemia Sp. z o.o. The agreements were signed on January 24th 2013 (PLN 250 thousand) and September 18th 2013 (PLN 225 thousand). As at December 31st 2012, the total amount receivable under the loans to Supra Agrochemia Sp. z o.o., including interest, was PLN 2,874 thousand.

In 2013, the Group did not grant loans to any related parties or other entities other than the loans referred to above.

5.10. Guarantees and sureties issued and received, in particular to the Group’s related entities

In 2013, the Group did not issue guarantees or sureties to any related or other entities.

Acting upon the Parent'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.
In the reporting period, a surety granted by Grupa Azoty PUŁAWY to secure the repayment of credit facility contracted by Bałtycka Baza Masowa Sp. z o.o. (BBM Sp. z o.o.) was in effect. In view of timely repayment of the facility by BBM, on January 24th 2013 an annex to the surety agreement was signed, decreasing the surety's liabilities towards the bank from USD 2,230 thousand to USD 1,730 thousand. Subsequent to the end of the reporting period, on January 24th 2014, another annex to the agreement was signed, decreasing the surety's liabilities towards the bank from USD 1,730 thousand to USD 1,230 thousand.

On December 23rd 2013, acting upon Grupa Azoty POLICE's instructions, PKO BP S.A. issued a standby letter of credit for an amount of PLN 17,999 thousand, for the benefit of STATOIL ASA to secure repayment of liabilities under a gas supply contract. The standby letter of credit expires on March 1st 2015.

On December 30th 2013, acting upon Grupa Azoty PUŁAWY's instructions, PKO BP S.A. issued a standby letter of credit for an amount of PLN 4,340 thousand, for the benefit of STATOIL ASA to secure repayment of liabilities under a gas supply contract. The standby letter of credit expires on March 1st 2015.

The Grupa Azoty Group’s related entities did not issue sureties or guarantees to the Parent. In 2013, the following guarantees were issued upon Group companies’ instructions:

**Guarantees issued or amended in 2013 upon instructions of Grupa Azoty Group companies**

<table>
<thead>
<tr>
<th>Type and parties</th>
<th>Issue date</th>
<th>Security for:</th>
<th>Amount (PLN)</th>
<th>Validity date</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bank guarantee issued by PKO BP S.A. upon Parent’s instructions 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 PUŁAWY</td>
<td>413,035</td>
<td>Apr 15 2013 (expired)</td>
</tr>
<tr>
<td>Bank guarantee issued by PKO BP S.A. upon Parent’s instructions 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</td>
<td>158 (EUR 38)</td>
<td>Mar 20 2017</td>
</tr>
<tr>
<td>Annex to a bank guarantee issued by PKO BP S.A. upon the Parent’s instructions for the benefit of the 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>
<tr>
<td>Bank guarantee issued upon Grupa Azoty Prorem Sp. z o.o.’s instructions for the benefit of Grupa Lotos S.A.</td>
<td>Feb 13 2013</td>
<td>Performance of the agreement and warranty and guarantee claims</td>
<td>94</td>
<td>Mar 31 2018</td>
</tr>
<tr>
<td>Bank guarantee issued by PKO BP S.A. upon Grupa Azoty ZAK S.A.’s instructions for the benefit of the Customs Chamber in Opole</td>
<td>Dec 5 2013</td>
<td>Customs debts</td>
<td>1,500</td>
<td>Jan 1 2013–Mar 1 2015</td>
</tr>
<tr>
<td>Bank guarantee issued by PKO BP S.A. upon Grupa Azoty ZAK S.A.’s instructions for the benefit of OGP GAZ-SYSTEM S.A.</td>
<td>Sep 3 2013</td>
<td>Contract for gas fuel transmission services on a reverse flow basis</td>
<td>225</td>
<td>Sep 3 2013–Feb 28 2014</td>
</tr>
<tr>
<td>Bank guarantee issued by PKO BP S.A. upon Grupa Azoty ZAK S.A.’s instructions for the benefit of OGP GAZ-SYSTEM S.A.</td>
<td>Sep 3 2013</td>
<td>Contract for gas fuel transmission services on a reverse flow basis</td>
<td>529</td>
<td>Sep 3 2013–Feb 28 2014</td>
</tr>
<tr>
<td>Type and parties</td>
<td>Issue date</td>
<td>Security for:</td>
<td>Amount (PLN)</td>
<td>Validity date</td>
</tr>
<tr>
<td>------------------</td>
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</tr>
<tr>
<td>Bank guarantee issued by PKO BP S.A. upon Grupa Azoty ZAK S.A.’s instructions for the benefit of OGP GAZ-SYSTEM S.A.</td>
<td>Sep 3 2013</td>
<td>Contract for gas fuel transmission services on a reverse flow basis</td>
<td>2,097</td>
<td>Sep 3 2013–Nov 30 2014</td>
</tr>
<tr>
<td>Bank guarantee issued by PKO BP S.A. upon Grupa Azoty ZAK S.A.’s instructions for the benefit of OGP GAZ-SYSTEM S.A.</td>
<td>Sep 3 2013</td>
<td>Contract for gas fuel transmission services on a reverse flow basis</td>
<td>94</td>
<td>Jan 1 2014–Feb 28 2015</td>
</tr>
<tr>
<td>Bank guarantee issued by PKO BP S.A. upon Grupa Azoty POLICE’s instructions for the benefit of the Customs Chamber in Szczecin</td>
<td>Dec 2 2013</td>
<td>Customs debts</td>
<td>1,000</td>
<td>Dec 2 2014</td>
</tr>
<tr>
<td>Bank guarantee issued by Raiffeisen Bank upon Grupa Azoty POLICE’s instructions for the benefit of GAZ-SYSTEM S.A.</td>
<td>Aug 29 2013</td>
<td>Gas transmission contract</td>
<td>993</td>
<td>Dec 1 2014</td>
</tr>
<tr>
<td>Bank guarantee issued by Raiffeisen Bank upon Grupa Azoty POLICE’s instructions for the benefit of GAZ-SYSTEM S.A.</td>
<td>Aug 29 2013</td>
<td>Gas transmission contract – balancing services</td>
<td>2,813</td>
<td>Dec 1 2014</td>
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<tr>
<td>Bank guarantee issued by Raiffeisen Bank upon Grupa Azoty POLICE’s instructions for the benefit of GAZ-SYSTEM S.A.</td>
<td>Aug 29 2013</td>
<td>Contract for gas transmission on a reverse flow basis</td>
<td>181</td>
<td>Mar 2 2015</td>
</tr>
<tr>
<td>Standby letter of credit issued by PKO BP S.A. upon Grupa Azoty POLICE’s instructions for the benefit of STATOIL ASA</td>
<td>Dec 23 2013</td>
<td>Gas supply contract</td>
<td>17,999</td>
<td>Mar 1 2015</td>
</tr>
<tr>
<td>Bank guarantee issued by PKO BP S.A. upon Grupa Azoty PULAWY’s instructions for the benefit of Alfa Laval Polska Sp. z o.o.</td>
<td>Jun 10 2013</td>
<td>Contract for the manufacture, sale and supervision of assembly and start-up of an excess precipitate centrifuge</td>
<td>1,725 (EUR 416)</td>
<td>Dec 10 2013</td>
</tr>
<tr>
<td>Bank guarantee issued by PKO BP S.A. upon Grupa Azoty PULAWY’s instructions for the benefit of PGNiG TERMIIKA S.A.</td>
<td>Sep 23 2013</td>
<td>Liabilities under framework agreement for the supply of LIKAM</td>
<td>140</td>
<td>Sep 30 2015</td>
</tr>
<tr>
<td>Standby letter of credit issued by PKO BP S.A. upon Grupa Azoty PULAWY’s instructions for the benefit of STATOIL ASA</td>
<td>Dec 30 2013</td>
<td>Gas supply contract</td>
<td>17,999 (EUR 4,340)</td>
<td>Mar 1 2015</td>
</tr>
<tr>
<td>Bank guarantee issued by PKO BP S.A. upon PROZAP Sp. z o.o.’s instructions for the benefit of Schlumberger Oilfield Eastern Limited Sp. z o.o.</td>
<td>Oct 23 2013</td>
<td>Transfer of funds to the bank account (10% of the guarantee amount)</td>
<td>447</td>
<td>Dec 27 2017</td>
</tr>
<tr>
<td>Insurance guarantee issued by ERGO HESTIA S.A. upon REMZAP Sp. z o.o.’s instructions for the benefit of Lotos Serwis</td>
<td>May 16 2013</td>
<td>Performance bond, including removal of faults and defects</td>
<td>38</td>
<td>Aug 31 2016</td>
</tr>
<tr>
<td>Type and parties</td>
<td>Issue date</td>
<td>Security for:</td>
<td>Amount (PLN)</td>
<td>Validity date</td>
</tr>
<tr>
<td>--------------------------------------------------------------------------------</td>
<td>--------------</td>
<td>--------------------------------------------------------------------------------</td>
<td>---------------</td>
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</tr>
<tr>
<td>Insurance guarantee issued by ERGO HESTIA S.A. upon REMZAP Sp. z o.o.’s instructions for the benefit of KB Pomorze</td>
<td>Jul 12 2013</td>
<td>Performance bond, including removal of faults and defects</td>
<td>68</td>
<td>Aug 31 2016</td>
</tr>
<tr>
<td>Insurance guarantee issued by ERGO HESTIA S.A. upon REMZAP Sp. z o.o.’s instructions for the benefit of KB Pomorze</td>
<td>Nov 4 2013</td>
<td>Performance bond, including removal of faults and defects</td>
<td>31</td>
<td>Sep 19 2015</td>
</tr>
</tbody>
</table>

Source: Company data
Guarantees issued by banks and insurance companies upon the Grupa Azoty Group’s instructions as at December 31st 2013

<table>
<thead>
<tr>
<th>Type</th>
<th>Beneficiary</th>
<th>Details</th>
<th>Currency</th>
<th>Date issued</th>
<th>Dec 31 2013</th>
<th>Dec 31 2012</th>
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</thead>
<tbody>
<tr>
<td>Insurance guarantee</td>
<td>RAFAKO S.A.</td>
<td>Agreement No. Z/K/ZU/0326/08/KO</td>
<td>PLN</td>
<td>Dec 28 2010</td>
<td>-</td>
<td>171</td>
</tr>
<tr>
<td>Insurance guarantee for removal of faults and defects</td>
<td>Grupa LOTOS S.A.</td>
<td>Agreement No. 4600003268</td>
<td>PLN</td>
<td>Mar 21 2011</td>
<td>15</td>
<td>15</td>
</tr>
<tr>
<td>Bank guarantee issued by PKO BP S.A.</td>
<td>Director of 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>
<tr>
<td>Bank guarantee issued by PKO BP S.A.</td>
<td>Warsaw Trade Tower of Warsaw</td>
<td>Performance bond for a lease contract</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</td>
<td>Security for customs debts</td>
<td>PLN</td>
<td>Dec 12 2012</td>
<td>1,500</td>
<td>2,000</td>
</tr>
<tr>
<td>Bank guarantee issued by PKO BP S.A.</td>
<td>GAZ-SYSTEM S.A.</td>
<td>Security for fuel transmission contract</td>
<td>PLN</td>
<td>Sep 3 2013</td>
<td>225</td>
<td>-</td>
</tr>
<tr>
<td>Bank guarantee issued by PKO BP S.A.</td>
<td>GAZ-SYSTEM S.A.</td>
<td>Security for fuel transmission contract</td>
<td>PLN</td>
<td>Sep 3 2013</td>
<td>529</td>
<td>-</td>
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<td>Bank guarantee issued by PKO BP S.A.</td>
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<td>Security for fuel transmission contract</td>
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<td>Bank guarantee issued by PKO BP S.A.</td>
<td>Customs Chamber in Szczecin</td>
<td>Security for customs debts</td>
<td>PLN</td>
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<td>Bank guarantee issued by Raiffeisen Bank</td>
<td>GAZ-SYSTEM S.A.</td>
<td>Security for fuel transmission contract</td>
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<td>Bank guarantee issued by Raiffeisen Bank</td>
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<td>Security for fuel transmission contract</td>
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<td>Bank guarantee issued by Raiffeisen Bank</td>
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<td>Contract for gas transmission on a reverse flow basis</td>
<td>PLN</td>
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<td>181</td>
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<td>Standby letter of credit issued by PKO BP S.A.</td>
<td>STATOIL ASA</td>
<td>Gas supply contract</td>
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<td>PGNiG Termika S.A.</td>
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<td>Security for fuel sale contract</td>
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<td>Gaz System S.A</td>
<td>Payment guarantee for fuel transmission contract – balancing services</td>
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<td>Gaz System S.A</td>
<td>Payment guarantee for fuel transmission contract</td>
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<td>Dec 11 2012</td>
<td>-</td>
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<tr>
<td>InterRisk insurance guarantee</td>
<td>PGE GiEK S.A.</td>
<td>Performance bond</td>
<td>PLN</td>
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<td>Type</td>
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<td>Performance bond</td>
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<td></td>
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<td>Performance bond, including removal of faults and defects</td>
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<td>Energopol Szczecin S.A.</td>
<td>Performance bond, including removal of faults and defects</td>
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<td>Mar 19 2012</td>
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<tr>
<td>InterRisk insurance guarantee</td>
<td>PGE GiEK S.A.</td>
<td>Performance bond, including removal of faults and defects</td>
<td>PLN</td>
<td>Apr 16 2012</td>
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<tr>
<td>InterRisk insurance guarantee</td>
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<td>Performance bond, including removal of faults and defects</td>
<td>PLN</td>
<td>Jun 27 2012</td>
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<tr>
<td>InterRisk insurance guarantee</td>
<td>PGE GiEK S.A.</td>
<td>Performance bond, including removal of faults and defects</td>
<td>PLN</td>
<td>Aug 9 2012</td>
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</tbody>
</table>

47,490 32,476

* EUR-denominated liabilities were translated into PLN at the EUR/PLN mid-rate quoted by the NBP for December 31st 2013: 4.1472
5.11. Significant off-balance-sheet items

Promissory notes

<table>
<thead>
<tr>
<th>Beneficiary</th>
<th>Details</th>
<th>Currency</th>
<th>Date issued</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>
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<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>
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<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>
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<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>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>
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<tr>
<td>National Fund for Environmental Protection and Water Management</td>
<td>Security for grant repayment</td>
<td>PLN</td>
<td>Dec 13 2013</td>
<td>358</td>
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</tr>
<tr>
<td>National Fund for Environmental Protection and Water Management</td>
<td>Security for agreement on co-financing of Project No. KSI POIS.04.03.00-00-012/08</td>
<td>PLN</td>
<td>Dec 14 2009</td>
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<tr>
<td>BRE Bank S.A.</td>
<td>Security for hedging transactions</td>
<td>PLN</td>
<td>Jun 21 2005</td>
<td>-</td>
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<tr>
<td>Nordic Team Central Europe</td>
<td>Security for lease payments</td>
<td>PLN</td>
<td>2011</td>
<td>56</td>
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</tr>
<tr>
<td>Customs Office in Opole</td>
<td>Security for excise tax</td>
<td>PLN</td>
<td>Dec 31 2010</td>
<td>648</td>
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</tr>
</tbody>
</table>

* USD-denominated liabilities were translated into PLN at the USD/PLN mid-rate quoted by the NBP for December 31st 2013: 3.0120 and at the USD/PLN sell rate of the lead bank on December 31st 2012: 3.1724

Blank promissory notes issued by the Grupa Azoty Group and guarantees issued by banks upon the Grupa Azoty Group's instructions as security for liabilities recognised in the statement of financial position, or liabilities with respect to which the likelihood of cash outflows connected with liability settlement is negligible, are not presented as contingent liabilities.
5.12. Financial instruments - risk management policy and risk management instruments, objectives and methods

The Group 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 Group’s financial risk management is to reduce the impact of market factors such as currency exchange rates and interest rates on the basic financial parameters (result for the period, cash flows) previously approved in the Group’s budgets by using natural hedging and derivatives.

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

Taking into account the procedures in place at the Group and its diversified customer base, the concentration of credit risk not considered significant. Part of free cash held by Group companies (PLN 101,970 thousand as at December 31st 2013) is deposited in virtual cash-pooling accounts connected to overdraft facilities granted to the Group by PKO BP S.A. In this way, the Group optimises its interest expense and income and reduces the credit risk. Other free cash is maintained in diversified short-term deposits held with reputable banking institutions with safe solvency ratios. 53% 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., Atradius Credit Insurance N.V. S.A. and Euler Hermes, which limits the credit risk to the amount of deductible (5-10% of the insured receivables). The insurance policies provide 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 Group receives the compensation payment amounting to 90-95% of insured receivable value.

Further, over 14% of the Group’s trade receivables from non-related parties are secured by letters of credit or guarantees, which are not covered by insurance. The Group operates a unified credit risk management policy by performing ongoing credit assessment and customer monitoring. For these purposes, it reviews business intelligence reports, debtor registers and the customer’s credit history.

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

Foreign customers account for approximately 59% of the Group’s total trade receivables, with the balance of 41% representing domestic trade receivables.

The Group’s revenue concentrates in four main segments reflecting the Group’s business profile. The Agro Fertilizers Segment accounts for the largest share of Group’s trade receivables (39.9%), followed by the Plastics Segment (23.7%), the Chemicals Segment (21.5%), Other Activities (12.2%) and the Energy Segment (2.7%). Most of the sales in the Plastics and Chemicals segments are to foreign customers who use trade credit, chiefly within insured trade limits, or alternatively use letters of credit and guarantees. The Agro Fertilizers Segment 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 financial institutions having high ratings and which maintain safe solvency ratios. Free cash denominated in the Polish currency is typically held on technical accounts linked to overdraft facilities under the virtual cash pooling facility provided by PKO BP S.A.
Liquidity risk
Liquidity risk is the risk that the Group 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. The Parent and leading Group companies are fully solvent, with good credit standing. This means that the Group is able to pay its liabilities as they fall due and to hold and generate free operating cash flows to further support payment of such liabilities. The 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 capital credit lines available to its subsidiaries. In particular, these facilities provide protection against short-term cash deficits which may occur due to seasonality of sales in the fertilizers segment. The Group complies with the uniform covenants of its facility agreements which provide it with an ability to significantly increase its level of financial debt when and as needed. The Group’s strategic lenders view its financial standing as sound, and there are no significant threats or risks of the strong position deteriorating in the future. As at December 31st 2013, the Group did not carry any overdue liabilities, nor was it in default on other terms of its liabilities which could otherwise result in accelerated payment of such liabilities.

Market risk

Currency risk
The Group is exposed to the currency risk on foreign currency transactions including more than half 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 Group’s exposure to the currency risk. The Group 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 Group hedged its currency exposure throughout the reporting period using primarily natural hedging, factoring of receivables denominated in foreign currencies as well as currency forwards as a supplementary measure. In 2013, the Group’s open net currency exposure was chiefly in EUR (63% of the total), with the balance (37%) attributable to partially-hedged USD exposure (up to 50% of planned currency exposure).

Interest rate risk
The Group is exposed to interest rate risk mainly through its cash and cash equivalents and financial assets, as well as outstanding borrowings, other debt instruments, factoring and leases based on floating rates pegged to WIBOR + margin, to EURIBOR + margin for EUR-denominated borrowings and factoring, and to LIBOR + margin for USD-denominated borrowings. The effect of interest rate fluctuations on the Group’s debt is mitigated through interest rate collars for a long-term foreign-currency denominated credit facility of EUR 7,809 thousand. The activities aimed to reduce the interest rate risk include ongoing monitoring of the financial situation in the money market. A part of the p’s domestic free cash is deposited in virtual cash-pooling accounts bearing interest at 1M WIBOR, applicable to both positive and negative balances in current accounts of the Grupa Azoty Group companies, which enables efficient use of natural hedging. In the reporting period, domestic WIBID and WIBOR rates continued to decline until July 2013, when the Polish Monetary Policy Council ended the NBP reference rate cutting cycle. After July, interest rates stabilised at the lowest in history, allowing the Group to limit the impact of growing financial debt on the interest expense. The interest received on bank deposits proportionately reflected the average variable interest rates on financial liabilities. EURIBOR and LIBOR rates were continuously low, which translated into relatively low costs of servicing the Group’s foreign currency financial liabilities.
Risk of changes in prices of raw materials, products and services
In order to reduce the risk, the Group 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, where 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 Group 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 Group 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.

Derivatives

Currency derivatives
As at December 31st 2013, the nominal value of the Group’s open currency derivatives (forward contracts) was EUR 9,300 thousand (by maturity: January 2014 - EUR 2,500 thousand; February 2014 - EUR 1,400 thousand; March 2014 - EUR 2,000 thousand; April 2014 - EUR 900 thousand; May 2014 - EUR 2,000 thousand; and June 2014 - EUR 500 thousand) and USD 5,100 thousand (by maturity: January 2014 - USD 1,100 thousand; February 2014 - USD 500 thousand; March 2014 - USD 500 thousand; April 2014 - USD 1,000 thousand; May 2014 - USD 500 thousand; and June 2014 - USD 1,500 thousand). As at December 31st 2012, the nominal value of the Company’s open currency derivatives was EUR 4,000 thousand.

The Group 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
As at December 31st 2013, the Company’s open currency forwards were measured at PLN 782 thousand and were recognised under other financial assets (December 31st 2012: PLN 410 thousand). The value of futures for purchase of CO₂ emission rights was negative at PLN (934) thousand, recognised under other financial assets (December 31st 2012: PLN 0). No hedging relationships were designated in this group.

As at December 31st 2013, the unrealised interest rate hedges were measured at PLN 863 thousand and charged to other financial liabilities (December 31st 2013: PLN 1,702 thousand).

Hedge accounting
In 2013, the Group did not use hedge accounting.
5.13. Group's expected financial standing

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

In 2013, the Parent and other Group companies paid out dividend from their 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 the Parent may use at times of increased demand for funding at Group companies; and to additional free multipurpose and working capital credit lines available to its subsidiaries.

The Group complies with the uniform covenants of its facility agreements which provide it with an ability to significantly increase its level of financial debt when and as needed.

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

The Group's Budget for 2014 takes into account all market forecasts available to the Group 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 Group's financial position and liquidity are not expected to deteriorate in any material way.

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

6.1. Significant risk factors and threats

The Group 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 Group identifies the following types of risk:

Risk of the Group’s performance deteriorating due to adverse macroeconomic conditions
The Group'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 Group'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 Group'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 Group companies monitor the market situation on an ongoing basis, and carry out in-depth analyses of the economic conditions on and forecasts for their target markets.

Risk related to intensified competition and product pricing
The Group companies operate 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 Group'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 Group's products and the demand for these products fluctuate.

The relevant risks include:
- Potential deterioration of the competitive position of the Grupa Azoty Group's fertilizer segment, which is mainly determined by the cost of natural gas, the main cost item in the manufacture of
nitrates. 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 nitrates 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 Group 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 plants 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 Group companies' business and their ability to sell their 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 Group'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.

- Closing of Arkema's European DEHP plant may cause oversupply of unprocessed 2-ethylhexanol on the European market. Growing production capacities of OXO alcohols in Asia, and their imports may further add to the oversupply and drive OXO alcohols further down in Europe.

The Group takes the following steps to mitigate these risks:

- In order to reduce the impact of adverse price changes, the Group 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 Group enters into long-term trade alliances based on framework offtake agreements.

- The Group 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 Group and other nitrogen fertilizer manufacturers in the European Union.

- The Grupa Azoty Group improves the quality of its products, adapting the product specifications to the customers’ changing preferences. Increase in sales of UAN-RSM® (highly concentrated nitrogen fertilizer - urea-ammonium nitrate solution containing all three nitrogen compounds) is one of the most important changes. At present, Grupa Azoty PULAWY is the only producer of UAN-RSM®, but launch of production is planned at the Group’s Kędzierzyn plant in the next 3-4 years. Mechanical granulation and launch of larger granules production in Puławy and Tarnów (2nd unit) are further directions for the product development. New trends in fertilizer production technologies include manufacturing of fertilizers better tailored to particular soil and crop types, and the Group takes steps to address the customers’ needs and add the required nutrients to its fertilizers, such as sulfur in nitrate fertilizers or UAN-RSM®. Another example is switching to production of plasticizers with high market growth potential, which are not exposed to legislative risks.

- 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 Group’s manufacturing operations depend on several key raw materials and energy. Given the relatively high market concentration, the Group companies do 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 Group’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,
- disproportionate concentration among several companies of the raw materials required to produce titanium white,
- high prices of benzene and phenol, affecting caprolactam production,
- volatility of propylene and ortoxylene supply,
- supplies of phosphate rock from politically unstable regions.

The Group’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 Group enjoys a competitive advantage as the largest or one of the largest consumers in Poland as well as in Central and Eastern Europe.

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 Group took certain steps to extend the value chain by acquiring its own sources of raw materials, including:

- acquisition of 55% of the shares in African Investment Group S.A., Senegal - securing access to phosphate rock reserves,
- acquisition of 85% of the shares in Grupa Azoty SIARKPOL - previously, the Group’s strategic supplier and regional leader in sulfur production,
- execution of a long-term agreement for supply of phenol with Germany’s INEOS PHENOL, the largest producer of phenol in Europe,
further steps have also been initiated, which may have a positive effect on securing own sources of raw materials for the Group:

- execution of agreement between the Grupa Azoty Group and Grupa LOTOS S.A. to conduct a feasibility study for a petrochemical complex,
- execution of agreement between Grupa Azoty PULAWY and KGHM Polska Miedź S.A. on the rules of cooperation in the exploration for, appraisal and extraction of such natural resources as potassium chloride and phosphates.

While the price of natural gas is already the main component of production costs (at present, the Group's annual gas use is ca. 2.3bn cubic metres) the planned investments in power generation and capacity expansion may cause the Company's demand for gas to increase even further. In their search for alternative and competitive sources of gas, the Grupa Azoty Group companies take efforts to diversify their 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 Group takes steps to satisfy its 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 their investment on projects designed to reduce gas consumption.

As for the main oil products used by 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 Group 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 Parent, Grupa Azoty PULAWY, Grupa Azoty ZAK S.A. and Grupa Azoty POLICE have been classified as facilities with a high risk of a serious industrial incident. It is a risk inherent in the Group's day-to-day operations. Industrial accidents may result in plant stoppages, fires, environmental contamination, accidents at work or, in extreme cases, explosions.

The Group 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 Group companies 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 plants and units 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 at the Grupa Azoty Group.

**Risks associated with the planning and execution of strategic projects**

Delivery of the Grupa Azoty Group Strategy for 2013-2020 depends on a range of factors, including those outside of the Group's control. These are external factors in the Group's environment, such as macroeconomic factors, market conditions, business environment and activities of the main...
competitors. Their negative impact could hinder 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 Group companies 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.

Group companies are working on investment projects begun in previous years, while embarking on new ones, important from the point of view of the Parent’s interests. In the years ahead, the focus will be on projects related to power assets upgrading. The plants in Tarnów, Police, and Puławy will be brought in line with the requirements of the IED Directive on industrial emissions, and a new energy source will be built at the Kędzierzyn plant. Another focal area will be mineral fertilizers, which are of key importance for the Group’s operations. The Group 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. The range of plasticizers will be expanded to include next-generation products. 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 Group’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 units, including the ammonia and nitric acid plants. 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 Group companies 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 at the Group companies 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 Parent’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 with a bearing on the Group’s business

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 chemicals 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
- Stable growth 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%),
- Stable growth 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%),
- Stable growth 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 24.0%),
- 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
- Slow recovery of global economies from the crisis,
- Tendency of the European Commission to limit the EU market protection instruments,
- Higher imports of fertilizers to Poland from regions with access to cheaper raw materials, and in particular cheaper gas, high production capacities and low internal demand,
- Susceptibility of the fertilizer business to unforeseeable weather conditions,
- Probability of declining prices of agricultural produce,
- 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 investment projects in regions with access to cheaper raw materials,
- Higher prices of strategic feedstocks in Europe.

6.2.2. External factors

Strengths
- High capacity utilisation rate in certain manufacturing lines,
- Strong position on the Polish market, with relatively high growth prospects,
High level of technological integration,
Balanced product portfolio,
Strong potential for synergies,
Broad product range, for various market segments with different economic cycles,
Development of the product portfolio to increase the share of speciality fertilizers,
Strong activity outside the market, as a member of a number of industry organisations and institutions, helping to protect the Group’s business interests.

All these factors combined make up a coherent image of the Group, 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 Grupa Azoty Group to use its strengths to both take advantage of opportunities and counteract potential risks.

Weaknesses
- High employment and relatively low salaries,
- Strong dependence on natural gas, the main feedstock,
- Dependence on petrochemical commodities increasingly less available in Europe,
- Production of commodity products and the consequent inability to achieve higher margins,
- High energy intensity of production processes,
- Need to further solidify the market positions for the Group’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 potential.

6.3. Growth directions

Future growth directions for the Group 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 Group wants to grow its business and create value in the years ahead.

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, melanine, oxo alcohols, plasticizers and specialty chemicals,
- inorganic chemicals, particularly ammonia and titanium white.

The strategic objectives are as follows:
- Parent’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 operations in core areas 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,
- reducing production costs through modernisation of key production lines,
- building stable and effective customer relations, increasing Grupa Azoty’s brand awareness and optimising product logistics and distribution,
- improving the effectiveness of key processes and of knowledge gathering and management,
continuous 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. Group’s growth prospects and market strategy

In the coming years, the Grupa Azoty Group 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 Group 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.

Strategic objectives of the Grupa Azoty Group in key product areas:

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 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 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 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 plants in Tarnów and Police. The existing CHP units will be gradually modernised, with the scope of upgrades adapted to the changing legal requirements, particularly the environmental regulations. After 2015, heat and electricity in Kędzierzyn-Koźle will be generated at new units.
In Puławy, work will continue to build a CHP plant with a strategic partner, to secure long-term energy needs of Grupa Azoty PUŁAWY. The Group’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 Pulawy 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

Parent
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.

Other services included primarily settlement of acquisitions, translation of financial statements, and preparation of a report on meeting financial covenants.

<table>
<thead>
<tr>
<th>Description</th>
<th>KPMG Audyt Sp. z o.o.</th>
<th>KPMG Audyt Sp. z o.o.</th>
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<td>Description</td>
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<td>Audit of the full-year separate and consolidated financial</td>
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<td>statements of the Parent and the Group</td>
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<tr>
<td>Review of the half-year separate and consolidated financial</td>
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<td>105</td>
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<td>statements of the Parent and the Group</td>
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<tr>
<td>Prospectus-related services</td>
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<tr>
<td>Other services</td>
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<td>Total</td>
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Remuneration of *KPMG* companies for services rendered to the Group’s subsidiaries

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<tr>
<th>Description</th>
<th>2013</th>
<th>2012</th>
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<tr>
<td>Audit of the full-year separate and consolidated financial statements of the company and audit or review of consolidation package</td>
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<td>411</td>
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<td>Review of the half-year separate and consolidated financial statements of the company and review of consolidation package</td>
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<td>Other services</td>
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<td><strong>Total</strong></td>
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Remuneration of other qualified auditors for services rendered to the Group’s subsidiaries

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<tr>
<td>Audit of the full-year separate and consolidated financial statements of the company and audit or review of consolidation package</td>
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<td>114</td>
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<td>Other services</td>
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<tr>
<td><strong>Total</strong></td>
<td><strong>176</strong></td>
<td><strong>114</strong></td>
</tr>
</tbody>
</table>
8. Litigation

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

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 Parent received a summons of ISARIOS Industriekapital AG against the Parent 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 Parent may potentially incur may exceed this amount. From the date of the claim (November 16th 2012), the arbitration proceedings are technically considered to be open.

On January 30th 2013, the law firm representing the Parent 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 claim, 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.

ISARIOS Industriekapital AG also filed a petition with a court of general jurisdiction, requesting that a warning concerning the challenged ownership of Parent’s shares be put on record. On July 11th 2013, the court dismissed the request, 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 date of these financial statements, the Parent’s legal advisers maintain their earlier opinion on the validity of the Grupa Azoty ATT Polymers GmbH share sale agreement, claiming that there are no circumstances justifying reverse transfer of ownership of the shares to any entity. However, there can be no assurance that actions taken by ISARIOS Industriekapital AG or other entities raising claims to Grupa Azoty ATT Polymers GmbH shares will not result in a negative ruling on the Grupa Azoty ATT Polymers GmbH acquisition by the Parent, which could adversely affect the operations, financial performance and financial standing of Grupa Azoty.
9. Parent’s governing bodies

9.1. Remuneration and additional benefits

Remuneration of the Parent’s Supervisory Board members for holding office at the Group, paid for the term of office

<table>
<thead>
<tr>
<th>Member</th>
<th>Remuneration paid</th>
<th>Remuneration due</th>
<th>Total</th>
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<tr>
<td>Monika Kacprzyk-Wojdyga</td>
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<td>Ewa Lis</td>
<td>163</td>
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<tr>
<td>Jan Wais(*)</td>
<td>276</td>
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<tr>
<td>Robert Kapka(**)</td>
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<td>Tomasz Klikowicz(***</td>
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<td>Marek Mroczkowski</td>
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<td>Jacek Oblękowski</td>
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<td>Zbigniew Paprocki(****)</td>
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<td>Ryszard Trepczyński</td>
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(*) including remuneration under employment contract with the Parent - PLN 214 thousand,
(**) including remuneration under employment contract with the Parent - PLN 115 thousand,
(*** including remuneration under employment contract with the Parent - PLN 72 thousand,
(****) including remuneration under employment contract with the Parent - PLN 125 thousand,

Remuneration of the Parent’s Management Board members for holding office at the Group, paid for the term of office

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<tr>
<th>Member</th>
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<td>Andrzej Skolmowski</td>
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<td>Witold Szczypiński</td>
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<td>Marek Kapłucha</td>
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</tr>
<tr>
<td>Marian Rybak</td>
<td>31</td>
<td>188</td>
<td></td>
<td>219</td>
</tr>
<tr>
<td>Krzysztof Jałosiński</td>
<td>375</td>
<td>375</td>
<td></td>
<td>750</td>
</tr>
<tr>
<td>Artur Kopeć (*)</td>
<td>455</td>
<td>375</td>
<td></td>
<td>830</td>
</tr>
<tr>
<td>Jerzy Marciniak</td>
<td>488</td>
<td>-</td>
<td>720</td>
<td>1,208</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>3,363</td>
<td>2,126</td>
<td>720</td>
<td>6,209</td>
</tr>
</tbody>
</table>

(*) including remuneration under employment contract with the Parent - PLN 55 thousand,
Remuneration of the Parent’s management and supervisory personnel for holding office at the Group’s 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 Kaplucha</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>
<tr>
<td></td>
<td><strong>1,622</strong></td>
<td>-</td>
<td><strong>1,622</strong></td>
</tr>
</tbody>
</table>

9.2. **Agreements executed between the Parent and management personnel providing for compensation in the event of their resignation or dismissal from the position held without valid cause or if their dismissal or redundancy occurs as a result of a merger**

The employment contracts of the current-term members of the Parent’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 Parent 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 Parent and availability of the text of the code to the public


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

Since 2009, the Parent has been a constituent of the RESPECT index managed by the Warsaw Stock Exchange. The Parent 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 Parent was for the seventh time included in the elite group of 20 companies covered by the RESPECT Index.

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

Since the flotation of its shares on the WSE in 2008, the Parent’s aim has been to observe best corporate governance practices, which was expressed in the declaration of the Parent’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 Parent’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 Parent’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 Parent in the form of current reports, also on its website. Therefore investors are able to review the matters discussed at General Meetings. The Parent 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 Parent’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 Parent 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 Parent'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 Parent’s Management Board, none of the Supervisory Board members attended the Annual General Meeting on April 17th 2013.

The Parent’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 Parent 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 Parent’s risk management guidelines set out in the Market Risk Management Policy, defining the currency, interest rate, price and credit risk management policies, the Parent 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 Parent’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 Parent to assess measures taken to mitigate risks in individual processes carried out at the Parent.

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></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Norica Holding S.à.r.l and Cliffstone Holdings Limited</td>
<td>9,599,816</td>
<td>9.68</td>
<td>9,599,816</td>
<td>9.68</td>
</tr>
<tr>
<td>Other</td>
<td>28,550,085</td>
<td>28.78</td>
<td>28,550,085</td>
<td>28.78</td>
</tr>
<tr>
<td><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>
including:

<table>
<thead>
<tr>
<th>Series AA and Series B shares</th>
<th>39,116,421</th>
</tr>
</thead>
<tbody>
<tr>
<td>Series C shares</td>
<td>24,999,023</td>
</tr>
<tr>
<td>Series D shares</td>
<td>35,080,040</td>
</tr>
</tbody>
</table>

According to the list of persons entitled to participate in the Extraordinary General Meeting called for March 8th 2013, made available to the Parent 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 Parent’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</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>Total</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 Parent’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 Parent shares, representing 1.796% of its share capital and carrying 1,781,186 voting rights (approximately 1.796% of total voting rights) at its General Meeting.

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

Prior to the execution of the transactions, Norica held 8,833,660 Parent 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 Parent 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 Parent’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 Parent’s General Meeting.
- Acron, TrustService’s parent, indirectly exceeded the 10% threshold of total voting rights at the Parent’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 Parent’s General Meeting.
- Subero, Acron’s parent, indirectly exceeded the 10% threshold of total voting rights at the Parent’s General Meeting through its subsidiaries Norica and Cliffstone Holdings Limited of Nicosia, Cyprus ("Cliffstone") (Cliffstone holds 766,156 shares in the Parent, representing 0.77% of its share capital and carrying 766,156 voting rights (0.77% of total voting rights) at the Parent’s General Meeting), and holds 11,381,002 shares in the Parent, representing 11.47% of its share...
capital and carrying 11,381,002 voting rights (11.47% of total voting rights) at the Parent’s General Meeting.

- Viatcheslav Kantor, the owner of Subero, exceeded the 10% threshold of total voting rights at the Parent’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 Parent, representing 11.47% of its share capital and carrying 11,381,002 voting rights (11.47% of total voting rights) at the Parent’s General Meeting.

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

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

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

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

Norica notified the Parent that none of its subsidiaries held any Parent shares.

Furthermore, Viatcheslav Kantor, Subero, Norica, Acron and TrustService notified the Parent 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 Parent, Viatcheslav Kantor, Subero, Norica, Acron and TrustService may from time to time, directly or indirectly, acquire or sell Parent 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>Other</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 Parent’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 Parent 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 Parent’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 Parent’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>
<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>21,531,450</td>
<td>21.71</td>
<td>21,531,450</td>
<td>21.71</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 April 18th 2013, the Parent’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 Parent, 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 Parent shares representing 5.75% of its share capital and of total voting rights at the Parent’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 Parent.

**Shareholder 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>
</tr>
</thead>
<tbody>
<tr>
<td>State Treasury of Poland</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.à.r.l and Cliffstone</td>
<td>15,216,094</td>
<td>15.34</td>
<td>15,216,094</td>
<td>15.34</td>
</tr>
<tr>
<td>Holdings Limited</td>
<td>9,883,323</td>
<td>9.96</td>
<td>9,883,323</td>
<td>9.96</td>
</tr>
<tr>
<td>ING Pension Fund</td>
<td>8,689,591</td>
<td>8.76</td>
<td>8,689,591</td>
<td>8.76</td>
</tr>
<tr>
<td>TFI PZU S.A.</td>
<td>7,800,000</td>
<td>7.86</td>
<td>7,800,000</td>
<td>7.86</td>
</tr>
<tr>
<td>Aviva OFE</td>
<td>5,700,000</td>
<td>5.75</td>
<td>5,700,000</td>
<td>5.75</td>
</tr>
<tr>
<td>Aviva BZ WBK</td>
<td>19,171,967</td>
<td>19.33</td>
<td>19,171,967</td>
<td>19.33</td>
</tr>
<tr>
<td>EBRD</td>
<td>3,739,591</td>
<td>3.77%</td>
<td>3,739,591</td>
<td>3.77%</td>
</tr>
</tbody>
</table>

Total: 99,195,484 100.00 99,195,484 100.00

On April 24th 2013, the Parent’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 Parent, thereby reducing its share of total voting rights at the Parent’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 Parent and as at the date of the notification held 32,734,509 shares carrying the corresponding number of voting rights at the Parent’s General Meeting and representing 32.99999927% of the Parent’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 acquisition of 4,950,000 shares in the Parent on April 18th 2013, Towarzystwo Funduszy Inwestycyjnych PZU S.A.’s share of total voting rights at the Parent’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 Parent was also notified that Towarzystwo Funduszy Inwestycyjnych PZU S.A., acting in its capacity as fund manager, may exercise voting rights at the Parent’s General Meeting on behalf of TFI PZU funds.
The table below presents the Parent’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 Parent’s General Meeting.

<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>32,734,509</td>
<td>33.00</td>
<td>32,734,509</td>
<td>33.00</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>
<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>Other</td>
<td>19,171,967</td>
<td>19.33</td>
<td>19,171,967</td>
<td>19.33</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>99,195,484</strong></td>
<td><strong>100.00</strong></td>
<td><strong>99,195,484</strong></td>
<td><strong>100.00</strong></td>
</tr>
</tbody>
</table>

On June 13th 2013, the Parent’s Management Board received a notice from Norica, 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 Parent was informed that an intra-group OTC transaction in the Parent shares (the “Transaction”) was executed on June 10th 2013, as a result of which Norica acquired 766,156 Parent shares from Cliffstone Holdings Limited (Cliffstone Holdings Limited belongs to the same group as Norica), representing approximately 0.77% of the Parent’s total shares and carrying 766,156 voting rights, i.e. approximately 0.77% of total voting rights at the Parent’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 Parent’s General Meeting above the 15% threshold.

Furthermore, Norica, Acron, TrustService, Subero, and Viatcheslav Kantor notified the Parent 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 Parent’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 Parent 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 Parent 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 Parent 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 Parent 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 Parent 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).

Noric also notified the Parent that none of its subsidiaries held any Parent shares. Acron notified the Parent that aside from Norica none of its subsidiaries held any Parent shares.
TrustService notified the Parent that aside from Norica none of its subsidiaries held any Parent 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 notified the Parent that, within the next 12 months, they may dispose of or acquire, either directly or indirectly, shares in the Parent, which will depend on market and financial conditions and other important factors.

### Shareholding structure as at June 14th 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>32,734,509</td>
<td>33.00</td>
<td>32,734,509</td>
<td>33.00</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>
<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>Other</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>100.00</td>
<td>99,195,484</td>
<td>100.00</td>
</tr>
</tbody>
</table>

As of June 14th 2013 and until the date of these financial statements, the Parent 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 Parent’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 Parent’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 Parent’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 Parent’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 Parent’s Articles of Association, one share carries one vote at the General Meeting.
On December 22nd 2010, the Parent’s Extraordinary General Meeting passed 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 securities

There are no restrictions on the transferability of the Parent securities.

10.8. Rules governing appointment and removal of the 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 management staff

Management Board

Pursuant to Art. 24 of the Parent’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 Parent’s Articles of Association).

As long as the Parent employs an annual average of above 500 employees, the Supervisory Board appoints one person elected by Parent employees to the Management Board, for the Management Board’s term of office (Art. 25.1 of the Parent’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 Parent’s Articles of Association).

Supervisory Board

Pursuant to Art. 35.1 of the Parent’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 Parent’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 Parent’s Articles of Association).
Power to make decisions to issue or buy back shares
Pursuant to Art. 10.1 of the Parent's Articles of Association, the Parent’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 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 Zakłady Azotowe Puławy S.A. of Puławy, entered into the Register of Entrepreneurs of the National Court Register under entry No. KRS 0000011737 ("ZA Puławy"), in exchange for a non-cash contribution in the form of shares in ZA PUŁAWY, so that one share in ZA PUŁAWY 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 PUŁAWY 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's 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 Parent's Articles of Association
Pursuant to Art. 51.22 of the Parent's Articles of Association, the General Meeting has exclusive authority to amend the Parent's Articles of Association or change the Parent'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 Parent’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 Parent’s Articles of Association.
In particular, the General Meeting has the authority to:

- review and approve the Directors’ Report on the Parent’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 Parent, as well as the annual written report of the Supervisory Board, and to grant discharge to members of the Parent’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 Parent’s Articles of Association,
- change the Parent’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 Parent,
- dissolve and liquidate the Parent,
- approve buyback of Parent 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 their execution
Shareholder rights are defined in detail in the Commercial Companies Code, the Act on Trading in Financial Instruments, the Public Offering Act and the Parent’s Articles of Association (Art. 14-16 - Shareholder rights and obligations).

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

Parent’s Management Board
Composition of the Parent’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 Jalosiński - 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 PULAWY with effect from May 5th 2013, the reason being his appointment as President of the Parent’s Management Board.

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

On June 27th 2013, the Parent’s 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 Parent’s 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 Jalosinski - 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 Parent’s Management Board operates on the basis of:

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

**Powers and responsibilities of the Management Board members**

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

**Supervisory Board**

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
- 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 Parent’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 Parent’s 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 Parent’s Articles of Association, by virtue of the letter of April 16th 2013, received by the Parent’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 Parent’s Supervisory Board as at the date of issue of this Report:

- Monika Kacprzyk-Wojdyga – Chairperson of the Supervisory Board,
- Jacek Obłękowski – Vice-Chairperson,
- Ewa Lis – Secretary,
- Robert Kapka – Member,
- Tomasz Klikowicz – Member,
- Artur Kucharski – Member,
- Marek Mroczkowski – Member,
- Zbigniew Paprocki – Member,
- Ryszard Trepczyński – Member.

The Supervisory Board operates on the basis of:

- the Commercial Companies Code of September 15th 2000 (Dz.U. No. 94, item 1037, as amended),
- the Act on Commercialisation and Privatisation (...),
- the Accountancy Act,
- the Parent’s Articles of Association (Art. 32 et seq.),
- the Rules of Procedure for the Parent’s Supervisory Board.

In 2011, the Supervisory Board appointed an Audit Committee in order to streamline its work and improve control over the Parent and the Group. The Audit Committee, which is an advisory body acting collectively within the structure of the Supervisory Board, consists of:

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

Signatures of the Supervisory Board members

................................................
Paweł Jarczewski
President of the Management Board

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

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

................................................
Marek Kapiucha
Vice-President of the Management Board

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

................................................
Krzysztof Jalosiński
Vice-President of the Management Board

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

Tarnów, March 12th 2014