Directors’ Report
on the Operations of Grupa Azoty S.A.
for the 12 months ended
December 31st 2014
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1. General information on the Company

1.1. Company overview
Grupa Azoty S.A. (the “Company”) is a proven and well-recognised manufacturer whose value creation ability is founded on a partnership-based approach to developing lasting trading relations and understanding of needs. Its key operational areas include mineral fertilizers, plastics and intermediates manufacturing, sales and related services. The Company is an integrated manufacturer of polyamide 6, marketed as Tarnamid®, obtained through caprolactam polymerisation. It is Poland’s only manufacturer of polyoxymethylene plastic, trademarked Tarnoform®. The Company manufactures and markets liquid and crystalline caprolactam, as well as engineering and modified plastics. The Company is also a manufacturer of fertilizers in two granulation types: macro and standard. Its product portfolio includes:
- Saletrosan® (ammonium sulfate nitrate, ASN),
- calcium ammonium nitrate (CAN),
- ammonium nitrate (AN),
- ammonium sulfate (AS).

The Company has its own research facilities, It concentrates both on research into new products and technologies, and on development of the existing products. The Company collaborates with a number of research and scientific centres. Since 2008, Grupa Azoty has been listed on the Warsaw Stock Exchange (Giełda Papierów Wartościowych w Warszawie S.A.). Grupa Azoty has been a constituent of the CSR-focused RESPECT index since its launch on November 19th 2009. This is a proof that the Company is a stable and trustworthy corporate organisation with high management standards and an attractive investment profile. The Company was entered into the register of entrepreneurs of the National Court Register (entry No. KRS 0000075450) on December 28th 2001 pursuant to a ruling of the District Court for Krakow-Śródmieście in Kraków, 12th Commercial Division of the National Court Register, of December 28th 2001. Since April 22nd 2013, the Company has been trading under its new name Grupa Azoty Spółka Akcyjna (abbreviated to Grupa Azoty S.A.). The Company’s core activities include manufacture of basic chemicals, fertilizers and nitrogen compounds, plastics and synthetic rubber in primary forms (PKD 20.1).

1.2. Organisational and equity ties between the Company and other entities
The Company has built a strong and dynamically growing group. Since December 5th 2012, all Group companies have been trading under a new common brand Grupa Azoty. This modern brand, to be used by all Group entities, has been designed to clearly identify Grupa Azoty, its market position and product offering. Together, Grupa Azoty companies market a comprehensive product portfolio for most demanding customers who value high quality and modern technology. As at December 31st 2014, the Grupa Azoty Group (the “Azoty Group” or “Group”) comprised Grupa Azoty S.A. (the “Parent”) and ten subsidiaries (nine 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 Kopalnie i Zakłady Chemiczne Siarki Siarkopol S.A. (Grupa Azoty SIARKPOL),
- Grupa Azoty Koltar Sp. z o.o.,
- Grupa Azoty Folie Sp. z o.o.,
- Grupa Azoty Compounding Sp. z o.o.,
- 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 nine subsidiaries, and holds ownership interests in two associates,
- Grupa Azoty PKCh is the parent to three subsidiaries.

**Company’s equity interests as at December 31st 2014**

<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 Folie Sp. z o.o.</td>
<td>ul. Chemiczna 118 33-101 Tarnów, Poland</td>
<td>PLN 5,000</td>
<td>100.00</td>
</tr>
<tr>
<td>Grupa Azoty Compounding Sp. z o.o.</td>
<td>ul. Chemiczna 118 33-101 Tarnów, Poland</td>
<td>PLN 5,000</td>
<td>100.00</td>
</tr>
<tr>
<td></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 SIARKOPOL</td>
<td>Grzybów 28-200 Staszów, Poland</td>
<td>PLN 55,000,000</td>
<td>85.00</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>Associates</td>
<td>ul. Świętojańska 18/5 81-368 Gdynia, Poland</td>
<td>PLN 75,625</td>
<td>26.45</td>
</tr>
</tbody>
</table>
As at December 31st 2014, the Company also held non-controlling interests in 10 entities.

Non-controlling interests as at December 31st 2014

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

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

- On May 19th 2014, the Company established Grupa Azoty Compounding Sp. z o.o. (entered in the National Court Register on June 18th 2014). The new company has its registered office in Tarnów, Poland, and its share capital amounts to PLN 5 thousand.

  Grupa Azoty Compounding Sp. z o.o. is a special purpose vehicle whose business, to be conducted in cooperation with a partner, will consist in plastics compounding using innovative technological solutions. The project will be located in a subzone of the Kraków Special Economic Zone, and will involve construction of a compounding facility with state-of-the-art plant and equipment.

  On June 27th 2014, Grupa Azoty Compounding Sp. z o.o. was granted a licence to operate in the Kraków Special Economic Zone.

- On May 19th 2014, the Company established Grupa Azoty Folie Sp. z o.o. (entered in the National Court Register on June 18th 2014). The new company has its registered office in Tarnów, Poland, and its share capital amounts to PLN 5 thousand.

  Grupa Azoty Folie Sp. z o.o. is a special purpose vehicle whose business will be manufacturing of specialist films for the flexible packaging sector.

- Zakłady Włókien Chemicznych WISTOM S.A. (in bankruptcy) – the bankruptcy administrator has completed the last stage of distribution of the bankruptcy estate funds and, pursuant to Art. 217 of the Bankruptcy Law, on January 14th 2014 applied to the court for termination of bankruptcy proceedings of the company following liquidation of all assets of the bankruptcy estate. The announcement of termination of the proceedings will be published by the Court in the official gazette ‘Monitor Sądowy i Gospodarczy’.

- Wytwórnia Silników PZL MIELEC Sp. z o.o. (in bankruptcy) – June 18th 2014 saw the entry in the National Court Register of the Decision of the District Court of Tarnobrzeg, 5th Commercial Division, Bankruptcy Section, on termination of bankruptcy proceedings pursuant to Art. 368.1. of the Bankruptcy and Reorganisation Law. On October 13th 2014, the company was deleted from the National Court Register.

1.3. Branches (facilities) owned by the Company

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

Number of employees

<table>
<thead>
<tr>
<th>Employee group</th>
<th>As at Dec 31 2014</th>
<th>As at Dec 31 2013</th>
</tr>
</thead>
<tbody>
<tr>
<td>blue collar employees</td>
<td>1,303</td>
<td>1,298</td>
</tr>
<tr>
<td>white collar employees</td>
<td>785</td>
<td>774</td>
</tr>
<tr>
<td>Total</td>
<td>2,088</td>
<td>2,072</td>
</tr>
</tbody>
</table>

Number of employees: average annual and as at the end of 2014

<table>
<thead>
<tr>
<th>Employee group</th>
<th>Average annual</th>
<th>At year end</th>
</tr>
</thead>
<tbody>
<tr>
<td>blue collar employees</td>
<td>1,296</td>
<td>1,303</td>
</tr>
<tr>
<td>white collar employees</td>
<td>790</td>
<td>785</td>
</tr>
<tr>
<td>Total</td>
<td>2,086</td>
<td>2,088</td>
</tr>
</tbody>
</table>

Employee turnover

<table>
<thead>
<tr>
<th>Item</th>
<th>for the period Jan 1 - Dec 31 2014</th>
<th>for the period Jan 1 - Dec 12 2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>New hires</td>
<td>86</td>
<td>70</td>
</tr>
<tr>
<td>Redundancies</td>
<td>70</td>
<td>64</td>
</tr>
<tr>
<td></td>
<td>16</td>
<td>6</td>
</tr>
</tbody>
</table>

Employment by summary education

<table>
<thead>
<tr>
<th>Item</th>
<th>Year</th>
<th>Total employment</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>2014</td>
<td>2,088</td>
<td>522</td>
<td>836</td>
<td>614</td>
<td>116</td>
</tr>
<tr>
<td>Number of employees</td>
<td>2013</td>
<td>2,072</td>
<td>487</td>
<td>834</td>
<td>630</td>
<td>121</td>
</tr>
</tbody>
</table>

Employment by length of service

<table>
<thead>
<tr>
<th>Item</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>2014</td>
<td>265</td>
<td>148</td>
<td>424</td>
<td>1 251</td>
</tr>
<tr>
<td></td>
<td></td>
<td>12.69 %</td>
<td>7.09 %</td>
<td>20.31 %</td>
<td>59.91 %</td>
</tr>
<tr>
<td></td>
<td>2013</td>
<td>212</td>
<td>149</td>
<td>464</td>
<td>1 247</td>
</tr>
<tr>
<td></td>
<td></td>
<td>10.23 %</td>
<td>7.19 %</td>
<td>22.39 %</td>
<td>60.19 %</td>
</tr>
</tbody>
</table>
2. Company management principles

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

Organisational Rules
On May 16th 2014, in the performance of a resolution of the Company’s Management Board, the Organisational Rules of Grupa Azoty S.A. were implemented at the Company. The Rules, representing the fundamental document defining the Company’s internal organisation, have been implemented to ensure, among other things, effective implementation of the common corporate strategy and management model for the Company.

Code of Ethical Conduct
On May 19th 2014, the Azoty Group Code of Ethical Conduct was implemented for use in both the Company and the Group. The document is normative and declaratory in nature, it is applied in an organisational environment where the principles of ethical conduct have been only partially communicated and disclosed, and identifies and governs matters pertaining to shared values, conduct and ethical standards.
The Azoty Group’s values are economy, professionalism, cooperation, respect and transparency. The Code is binding on all Company and Group employees as well as trading partners.

Code of Organisational Culture - Organisational and Management System
On June 30th 2014, the Code of Organisational Culture - the Grupa Azoty Group Organisational and Management System was implemented at Grupa Azoty. The document describes in particular the integration of corporate cultures and use of synergies within the Group to achieve better adaptation to the business and social environments, with simultaneous fulfilment of commitments towards the stakeholders.
The Code serves to inform and set certain standards of corporate culture. It defines, in particular, the Group’s vocabulary of organisation and management, corporate governance system, Group organisation and management system, organisational roles and responsibilities.

Business Process Management Guidelines
In the continued implementation of the Group Management Model, an internal order dated December 19th 2014 introduced Level 1 Main Corporate Business Processes Management Guidelines (defined exclusively at Grupa Azoty’s Corporate Centre) and Level 2 Main Corporate Business Processes Management Guidelines (defined at the level of both Grupa Azoty and its subsidiaries). The Grupa Azoty Process Book was also implemented, stipulating general terms applicable to the Main Corporate Business Processes Management Guidelines.

2.3. Organisational changes at the Company

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

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

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 Puławy, along with Caprolactam Sales Division in Puławy.
On August 1st 2014, the Tarnoform compounding area, previously operating within the Modified Granules Branch, was separated (together with all its functions and tasks) from the Casings and Modified Granules Division and transferred to the Tarnoform and Formaldehyde Division.
On January 1st 2015, the Oxidation Division and the Cyclohexanone Division in the Production Unit in Tarnów were merged to form a new Cyclohexanone Division.
3. Company’s equity and other instruments. Significant shareholders

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

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

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

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

Company shares held by supervisory personnel

<table>
<thead>
<tr>
<th>Number of shares / voting rights</th>
<th>As at Jan 1 2014</th>
<th>as at Dec 31 2014</th>
<th>as at Mar 10 2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tomasz Klikowicz</td>
<td>190</td>
<td>190</td>
<td>190</td>
</tr>
</tbody>
</table>

The Company’s other supervisory personnel did not hold Company shares as at December 31st 2014 or as at the date of this Report.

Shares held by the Company’s management personnel in its related parties as at March 10th 2015

<table>
<thead>
<tr>
<th>Member of the Management Board</th>
<th>Related party</th>
<th>Number of shares</th>
<th>Par value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Krzysztof Jałosiński</td>
<td>Grupa Azoty POLICE</td>
<td>1,000</td>
<td>PLN 10</td>
</tr>
<tr>
<td>Marek Kapłucha</td>
<td>Grupa Azoty PUŁAWY Group</td>
<td>2</td>
<td>PLN 10</td>
</tr>
</tbody>
</table>

As at the date of this Report, none of the Company’s supervisory personnel held any shares in its related parties.

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

The 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 plan

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

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

The Grupa Azoty Group companies do not hold any treasury shares.
Company shares held by persons acting on behalf of the Grupa Azoty Group as at March 10th 2015

<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 Wolinński - 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., Grupa Azoty PUŁAWY</td>
<td>639</td>
</tr>
<tr>
<td>Wiesław Kozioł - Grupa Azoty Automatyka Sp. z o.o.</td>
<td>360</td>
</tr>
</tbody>
</table>

3.5. Equity and debt issues

In 2014, the Company did not issue, redeem or repay any debt or equity securities.

3.6. Use of proceeds from share issues

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

3.7. Share data

Grupa Azoty S.A. has been listed on the Warsaw Stock Exchange since June 30th 2008, and since February 19th 2013 it has been a constituent of the MSCI Emerging Markets index.

There are in total 99,195,484 outstanding shares of Grupa Azoty S.A., with a par value of PLN 5 per share. Company shares (ticker: ATT) are listed on the WSE main market in the continuous trading system and are included in the WIG, WIG-Poland, WIG30 and mWIG40 indices and the chemical sector index WIG-Chemia.

The Company has been included in the RESPECT Index, the first CSR-focused index in Central and Eastern Europe, since November 19th 2009.

The selection of companies to be included in the Index is made in a three-stage process. The criteria which are evaluated in the selection process include financial standing, strategy, management processes, environmental factors, human resources policy and employee relations, as well as market impact and customer relations. Thus, the Company has become a member of an elite group of stable, reliable and trustworthy organisations. The Company’s inclusion in the RESPECT Index provides investors with an additional assurance that the Company is a safe enterprise, managed to the highest standards of sustainable development. On December 18th 2014, the Company was for the eighth time awarded a certificate confirming its membership in the elite group of 24 companies listed in the RESPECT Index.

Since February 2013, Grupa Azoty S.A. has been a constituent of the MSCI Emerging Markets index. MSCI indices have been published by Morgan Stanley since 1970.

Following a semi-annual review of the FTSE indices, on March 4th 2015 the Company was selected to feature in the prestigious FTSE Emerging Markets index. The Company stock will be listed in the index starting from March 23rd 2015. The FTSE Emerging index is part of the FTSE Global Equity Index Series (GEIS), which includes large and mid cap securities from advanced and secondary emerging markets. The FTSE indices are listed on the London Stock Exchange.

All other important information on Grupa Azoty shares, including information on voting rights restrictions, is presented in section 10 of this Report - Statement of Compliance with Corporate Governance Rules.
Shareholding structure

Shareholding structure as at December 31st 2014

<table>
<thead>
<tr>
<th>Shareholder</th>
<th>Number of shares</th>
<th>% of share capital</th>
<th>Number of votes</th>
<th>% of voting rights</th>
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</table>

<sup>1</sup> A direct subsidiary of Norica Holding S.à r.l.

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 2014 to the date of issue of this Report, the Company has not been notified of any changes in large holdings of its shares.

Share performance

The Company’s share price at the beginning of 2014 was PLN 64.34, having consistently declined since October 2013. In January 2014, the share price moved slightly up and reversed the trend. Q1 2014 saw gradual recovery to above PLN 62. Following April’s short-lived decline to PLN 56, the share price surged to above PLN 74 in May, exceeding the year’s consecutive highs to reach PLN 80.49 on June 11th 2014, which later turned out to be the year’s high. Between July and September, the share price ranged from PLN 72 to PLN 80, dipping temporarily to around PLN 70. The price declined from around PLN 75 in September to PLN 57 a month later. In Q4 2014, the share price rose again to above PLN 62 at the end of October and above PLN 68 in December, and then dropped to below PLN 60. The end of the year saw one more recovery attempt, with the share price reaching PLN 63.30 at the close of the financial year.
Company share price from the IPO (June 30th 2008) to December 31st 2014

Source: GPWInfoStrefa, Grupa Azoty.

**Dividend policy**

The Company’s dividend policy is consistent with the Strategy for 2013-2020. Distributions to shareholders depend on and are proportionate to the Company’s earnings and financial standing. In its dividend proposals, the Company’s primary focus will be to ensure compliance with the required levels of financial ratios, to secure financial stability and to secure financial resources sufficient to support the Group’s further development.

The dividend policy will be revised on an as-needed basis, and any decisions made by the Company in this respect will take account of a number of factors concerning both the Parent and the entire Group.

When deciding on profit distribution, the Company will consider its growth prospects in individual business areas, future earnings, as well as cash needs in the context of the current financial position, development and acquisition plans, and the relevant laws.

The final decision on profit distribution for a given financial year will each time be made by shareholders at the Annual General Meeting.

In the reporting period, the Parent distributed profit for 2013. From the profit, PLN 19,839 thousand (PLN 0.20 per share) was allocated to payment of dividend. The remaining profit amount was allocated to statutory reserve funds.

The dividend record date and the dividend payment date were set for June 18th 2014 and July 9th 2014, respectively.
Recommendations

Analyst recommendations for Company shares, published between January 1st 2014 and the date of this Report

<table>
<thead>
<tr>
<th>Date</th>
<th>Recommendation</th>
<th>Target price (PLN)</th>
<th>Price at recommendation date (PLN)</th>
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<td>55.49</td>
<td>ING Securities</td>
</tr>
</tbody>
</table>

Investor relations

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

Following publication of periodic reports, the Company and the Grupa Azoty Group hold conferences to present and discuss their separate and consolidated financial performance. As part of the consolidation process, such conferences are held jointly by all issuers from the Group to present a coherent picture of the Group to the investors and analysts. Keen to communicate with its retail investors as well, Grupa Azoty holds open web chat sessions following publication of its financial reports, where the shareholders are able to communicate directly with the Parent’s representatives and ask them questions. Presentations on financial performance, addressed in particular to institutional investors, investor presentations, and chat logs are available on the Company’s website (the Investor Relations section).

In 2014, representatives of Grupa Azoty also met with capital market participants during numerous one-on-one meetings and conferences, held both in Poland and abroad. 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 Company makes every effort to ensure that the published information is disseminated among as many recipients as possible. To this end, Grupa Azoty publishes its key announcements also in social media. An important tool for communicating with the capital market is the corporate website, featuring Company’s current and periodic reports, important information about AGMs and EGMs, analyst recommendations and financial results. The website, with its dedicated section for investors, was upgraded to provide more precise capital market information in a more user-friendly manner. The content and presentation quality of the IR section, as well as the use of the Internet to communicate with investors, were recognised by the jury of the Golden Website Award for Listed Companies, organised by the Polish Association of Listed Companies. Grupa Azoty won the prestigious Golden Website Award in its 7th edition, where it competed in the ‘Polish companies listed in the WIG20 and mWIG40 indices’ category. The Company’s website was assessed in terms of content, innovation and clarity of communication. What users praised in particular was the site’s searchability and readily accessible spreadsheet data.

Grupa Azoty’s IR efforts were also recognised by investors, who praised the Company’s active participation in the ‘Akcja Inwestor’ campaign in the popular Polish economic daily newspaper Puls Biznesu. Consequently, the Company has been honoured with the right to use the prestigious ‘Responds to Investors’ mark since August 2010.

The Company has also been invited to participate in the ‘10 out of 10’ Programme organised by the Polish Association of Retail Investors. The goal of the Programme is to deliver best practices in communication with retail investors, based on their needs and communication models functioning on foreign markets. By participating in the project, the Company promises to pursue a proactive policy of communication with retail investors and respect the rights of this group of investors. In June 2014, Grupa Azoty was named the ‘Capital Market Hero’ in recognition of its active two-way communication with retail investors. Intended to distinguish companies which meet the highest standards in investor communication, the title is particularly valuable as it is awarded by investors themselves in an on-line vote. The contest is held under the auspices of the Polish Association of Retail Investors.

4. Business overview

Its key operational areas include nitrogen fertilizers, plastics and intermediates manufacturing, sale and related services.

The Company is an integrated manufacturer of polyamide 6, marketed as Tarnamid®, obtained through caprolactam polymerisation. It is Poland’s only manufacturer of polyoxymethylene plastic, trademarked Tarnoform®. Grupa Azoty’s product offering also includes caprolactam and modified plastics based on polyamides, polyacetal, and PBT.

The Company is also a manufacturer of fertilizers in two granulation types: spherical and prilled. The Company has its own CHP plant, facilities for manufacturing catalysts (used in ammonia synthesis), and research and laboratory facilities.

Nitrogen fertilizers

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

Nitrogen-sulfur fertilizers and nitrate fertilizers are a core part of the Company’s fertilizer portfolio.

Nitrogen fertilizers are substances or mixtures of substances where nitrogen is the primary component. They are classified as one-component fertilizers irrespective of what and how much secondary ingredients or microelements they contain.

Engineering plastics
Engineering plastics are a group of products called technical thermoplastics, which exhibit high thermal resistance and good mechanical properties. The Company is a major polyamide 6 producer, ranking 4th in the European Union. The segment’s products also include caprolactam, cyclohexanone, cyclohexanol, and intermediate products manufactured on site. It is also Poland’s only producer of polyacetal (POM).

Plastics within the segment are manufactured in both natural and modified forms, with the latter including Tarnamid®, which is the trade name of polyamide 6 (PA6).

A wide array of polyamides features plastics with technical properties tailored to specific applications. The Company also offers polyacetal (POM) either in natural form (marketed as Tarnoform®) or modified (acetal copolymer). Engineering plastics are mainly used in the automotive industry, in household appliances, and in packaging.

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

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

The Company sells electricity to external customers and provides a wide range of services, including environmental protection, administration, testing-related diagnostic and inspection services, and management of the organisation’s property.

The Company operates its own research facilities which focus on the development of existing products as well as on research and development of new products and technologies. With its R&D facilities the Company is able to market new products and product types and to work closely with customers.

4.1. Overview of key products

Nitrogen fertilizers

Calcium ammonium nitrate
Calcium ammonium nitrate (CAN) is a nitrogen fertilizer with nitrogen content of up to 27%. It is a universal fertilizer, suitable for all types of soil. It is characterised by good solubility and is therefore easily absorbed by crops. The Company’s product offering also includes Saletrzak 27 Standard and Saletrzak with boron.

Ammonium nitrate
Ammonium nitrate is a nitrogen fertilizer which is easily dissolved in water, containing between 30% and 32% nitrogen. The Company’s product offering includes ammonium nitrate 30 macro.

Ammonium sulfate nitrate
Ammonium sulfate nitrate is a universal fertilizer which combines 26% nitrogen and 13% sulfur; it contains nitrogen in two forms which are easily absorbed by plants: the fast-working nitrate nitrogen and delayed-effect ammonium nitrogen, and may therefore be used for both pre-sowing applications and for top dressing (spring and winter grains, rapeseed). Delayed-effect ammonium nitrogen ensures longer availability of the nutrient to the plants, which is of particular importance in the case of long-growing crops (e.g. corn). Sulfur is a crucial element for the growth of plants and it facilitates absorption of nitrogen and other microelements - sulfate nitrate is the source of sulfur in the form that is best absorbable by plants.
Ammonium sulfate
Ammonium sulfate is a nitrogen fertilizer with sulfur, containing 21% nitrogen and 24% sulfur. It is a by-product in the manufacture of caprolactam. Like ammonium sulfate nitrate, ammonium sulfate increases sulfur content in the soil. The Company manufactures the following varieties of ammonium sulfate: select, macro, standard, and crystalline.

Engineering plastics
Polyamide 6 (PA 6)
Polyamide 6 (PA6) is a high-quality engineering thermoplastic in granular form for injection processing. It is the leading product among engineering plastics. The product’s wide range of beneficial properties means that it is used in a range of industries, including automotive, construction, electrical engineering, household goods and the food and textile industries. The Company markets this product under the trade name Tarnamid®.

Polyacetal (POM)
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 Company markets polyacetal under the trade name Tarnoform®.

Caprolactam
Caprolactam is an organic chemical compound and an intermediate product used in the manufacture of polyamide 6 (PA6). It is produced mainly from phenol and benzene. Synthesis of caprolactam yields ammonium sulfate as a by-product.

Cyclohexanone
Cyclohexanone and cyclohexanol are used by the Company, mainly either separately or as a mixture, to manufacture caprolactam and adipic acid, which are used primarily to produce polyamide. 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%). The market’s absorptive power strictly correlates with the target market for PA6 and PA6.6 polyamides. Very important is the situation in the textile, carpet, automotive, and construction industries, as well as in any sector where polyamide engineering plastics find novel applications. In the case of Grupa Azoty, caprolactam production represents the market for cyclohexanone and cyclohexanol.

4.2. Sales markets and sources of strategic raw materials

The Company enjoys a strong position in domestic and foreign chemical markets. Its products are mainly marketed in EU countries, particularly Poland, Germany, Belgium, the Czech Republic, France and Italy.
Fertilizers are the key product sold on the domestic market. Exported to the EU and Asia are mainly plastics, and to South America - fertilizers.
The Company had one customer with a more than 10% share in its 2014 revenue, i.e. Grupa Azoty ATT Polymers GmbH, a subsidiary.

Feedstock and materials
For the most part, the Company procures its manufacturing materials, merchandise and services domestically. Phenol and benzene account for a significant part of supplies from other EU countries, while purchases from outside the EU mostly consist of ammonia. Polskie Górnictwo Naftowe i Gazownictwo S.A. (PGNiG S.A.) was the only supplier whose share in the Company’s revenue in 2014 was at least 10%.

Natural gas
PGNiG S.A. supplied high-methane gas and gas from local sources under long-term agreements. Supplies from other trading partners were executed under short-term agreements. In 2014, the Company purchased 76.4% of its gas from PGNiG S.A., which included 46.1% of nitrogen-rich gas from local sources. Other sources were used for the remaining 23.6%.

Ammonia
The Company’s procurement strategy in this area is based on optimisation of intragroup ammonia supplies. The Group, in which Grupa Azoty S.A. is the parent, is Poland’s and CEE’s largest ammonia producer, operating 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 process largely depends on conditions prevailing on the fertilizers market and in the natural gas sector. The Group is the largest consumer of ammonia on the domestic market and in the region.

Phenol
The Company’s phenol procurement strategy is based on two primary sources - Western Europe and domestic suppliers. Also, the Company has secured regular supplies from Scandinavian producers to supplement the existing sources. The phenol market in 2014 was largely driven by benzene contract prices, which are the principal component of phenol pricing formulae. Furthermore, the Company and the Group have commenced work on developing their logistics infrastructure using the Group’s potential in this area.

Benzene
Benzene is mainly delivered under one-year contracts, with supplementary purchases made on the spot market. Benzene is sourced chiefly from domestic and CEE suppliers. The Group, which is the largest benzene consumer in Poland, has a joint procurement strategy, which gives it a significant competitive advantage. The benzene market is largely driven by the situation on the crude oil market and the global demand-supply balance, particularly in terms of benzene demand outside Europe.
Sulfur

The Company’s sulfur procurement strategy is based on optimising sulfur supplies from the Grupa Azoty Group’s own sources (Grupa Azoty SIARKOPOL) and supplies of petrochemical sulfur. This approach gives the Company and the Group considerable flexibility in terms of the ability to secure supplies for the Company and other Group companies and reduce purchase costs. This strategy also guarantees supply security in the event of changes in demand for sulfur (Grupa Azoty SIARKOPOL is able to output more prilled sulfur by processing surplus molten sulfur). Grupa Azoty is the largest consumer of liquid sulfur on the domestic market and in the region.

Methanol

Methanol is mainly delivered under one-year contracts, with supplementary purchases made on the spot market. Since Poland is not a methanol producer, the entire domestic demand is covered from imports. Located close to the Eastern border, the Company is able to maximise supplies from Russian sources, which are the cheapest in the region.

Electricity

The Company and the Grupa Azoty Group companies purchased electricity from major Polish suppliers, i.e. PGE S.A., TAURON Polska Energia S.A. and ENEA S.A. Following a number of tenders for 2014, the Group companies executed electricity supply contracts as part of their existing framework agreements, and negotiated significantly reduced electricity prices, which were 10-15% lower than in 2013. 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 Company’s total capital expenditure in 2014 was PLN 70,298 thousand. This amount does not include expenditure on components adjusted for the stock-taking difference (PLN 13,850 thousand), but includes prepayments (PLN 11,266 thousand).

Structure of capital expenditure

- Business development PLN 20,890 thousand,
- Business continuity PLN 30,780 thousand,
- Mandatory investments PLN 4,150 thousand,
- Purchase of finished goods PLN 14,478 thousand.

Structure of capital expenditure in 2014

![Pie chart showing the distribution of capital expenditure] (Diagram showing the distribution of capital expenditure)

Source: Company data

2014 saw the launch of two major capex projects − the Polyamide Plant II 80 thousand t/y project and the Granulation Plant II project.

The objective of the Polyamide Plant II 80 thousand t/y project is to more efficiently utilise the caprolactam output of the Grupa Azoty Group, the surplus of which is now sold on the market. The
new PA 6 Plant will enable the Company to earn profit from sale of additional polyamide 6 volumes and offer new polyamide types that had not been previously manufactured at the Group’s facilities. The project’s budget is PLN 320,000 thousand. In 2014, a procedure was held to select the licensor, followed by the execution of a contract for purchase of the licence and process design, and for delivery of key plant components (the contract’s effective date was January 19th 2015). Final completion of the project is planned for 2016.

The amount of capital expenditure incurred until the end of 2014 was PLN 2,325 thousand.

The Granulation Plant II project will allow the Company to optimise the mix of fertilizer products and add further value to its ammonium sulfate output. The project is intended to double the output of mechanically granulated fertilizers and increase the level of the Company’s specialisation in nitrogen- and sulfur-containing solid fertilizers. The project’s budget is PLN 141,000 thousand. Currently, the planning permission documentation is being prepared. The contractor has been selected to prepare a comprehensive construction design, an EIAR application has been filed, and the procurement of key plant components has begun. In addition, relocation of the installations that would collide with the main building has been completed. Final completion of the project is planned for 2016. The amount of capital expenditure incurred until the end of 2014 was PLN 5,532 thousand.

Other key investment projects in 2014 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,
- Intensification of the unit for manufacturing cyclohexanone from phenol,
- New iron-chromium catalyst plant,
- Increase of ammonia production capacities,
- Flue gas desulfurization unit,
- Flue gas denitration unit,
- 20 MW pass-out and condensing turbine generator set at the CHP Plant.

Upgrade of the interior of ammonia synthesis reactors – the project’s objective is 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. The project’s budget is PLN 18,600 thousand. It will be placed in service after a round of tests scheduled for Q1 2015. Expenditure incurred so far is PLN 17,761 thousand, of which PLN 7,539 thousand was spent in 2014.

Purchase and installation of a new circulating hydrogen compressor for the phenol hydrogenation unit at the PD catalyst – the project’s objective is to ensure continuous operation of one of the key units in the caprolactam production line. The project’s budget is PLN 16,200 thousand. All deliverables under the project completed in 2014. Currently, the project is at the commissioning stage. Expenditure incurred so far is PLN 14,507 thousand, of which PLN 2,957 thousand was spent in 2014.

IT Consolidation for the Grupa Azoty Group – the project’s objective is to consolidate the IT systems of the Company and Grupa Azoty ZAK S.A. It will improve the efficiency of managing the Group. The project’s budget is PLN 9,800 thousand. The project has been completed and settled. Expenditure incurred so far is PLN 9,655 thousand, of which PLN 590 thousand was spent in 2014.

Bulk fertilizer storage facility – the 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 Saletrosan® 26 (macro granules ASN) and Saletrzak 27 Makro (macro granules CAN). The project’s budget is PLN 43,000 thousand. Current work streams include the foundation laying and procurement of handling facilities. Completion of the project is planned for 2015. Expenditure incurred so far is PLN 10,620 thousand, of which PLN 10,255 thousand was spent in 2014.
Intensification of the unit for manufacturing of cyclohexanone from phenol – the project’s objective is to reduce the cost of producing cyclohexanone from phenol and increase cyclohexanone output. The project’s budget is PLN 25,750 thousand. Currently, the planning permission documentation is being prepared. A contract has been signed to purchase a catalyst insert. An EIAR application has been filed in connection with the planning permission process. Completion of the project is planned for 2015. Expenditure incurred so far is PLN 403 thousand, all of which was spent in 2014.

New iron-chromium catalyst plant – the project’s objective is to scale up the Company’s catalyst operations, further improve the catalyst quality, create expansion opportunities, and increase the customer base.

The project’s budget is PLN 27,700 thousand. Currently, the site preparation design and the planning permission documentation are being prepared. An EIAR application has been filed in connection with the planning permission process. Final completion of the project is planned for 2016. Expenditure incurred so far is PLN 150 thousand, all of which was spent in 2014.

Increase of ammonia production capacities – the project’s objective is to increase the Company’s ammonia output by approximately 100 t/d to partly replace the more expensive ammonia from external sources. The project involves elimination of bottlenecks at the VRM unit and utilisation of idle ammonia synthesis capacities. As a result, the Company will be able to replace the more expensive third-party ammonia with its own product, thereby reducing the cost of the material.

The project’s budget is PLN 44,500 thousand. Current work streams include the design work and apparatus procurement. Final completion of the project is planned for 2016. The amount of capital expenditure incurred until the end of 2014 was PLN 167 thousand.

Flue gas desulfurization unit – the project’s objective is to reduce sulfur dioxide and dust emissions from the CHP Plant’s boiler 5, meet the emission standards laid down in the IED Directive, and ensure the continuity of power and heat production at the Company.

The project’s budget is PLN 45,400 thousand. The procedure to select the technology vendor and contractor is under way. Final completion of the project is planned for 2016. The amount of capital expenditure incurred until the end of 2014 was PLN 373 thousand.

Flue gas denitration unit – the project’s objective is to reduce NOx emissions from the CHP Plant’s boiler 5, meet the emission standards laid down in the IED Directive, and ensure the continuity of power and heat production at the Company.

The project’s budget is PLN 44,600 thousand. The procedure to select the technology vendor and contractor is under way. Final completion of the project is planned for 2016. The amount of capital expenditure incurred until the end of 2014 was PLN 373 thousand.

20 MW pass-out and condensing turbine generator set at the CHP Plant – the project’s objective is to optimise the loads of the existing back-pressure turbine generators. It will help optimise the CHP Plant’s costs by increasing the loads of the Lang pass-out back-pressure turbines (efficiency improvement), increasing the generation of electricity in condensing mode, and decreasing the reduction of process steam output. The project will bring down the average cost of electricity, increase the availability and reliability of the CHP Plant’s process system and enable more efficient power generation compared with the system now in place.

The project’s budget is PLN 63,000 thousand. A contract has been signed for the installation of the turbine generator set. Final completion of the project is planned for 2016. The amount of capital expenditure incurred until the end of 2014 was PLN 8,095 thousand.
4.4. Bank deposits and equity investments

Bank deposits
In 2014, the Company’s short-term funds were primarily held in a current account with PKO Bank Polski S.A., linked under virtual cash pooling with the Group companies’ overdraft sub-facilities. The arrangement enables optimisation of interest income and expense throughout the Group. The Group companies which hold free cash with PKO BP earn interest on their deposits netted off with the overdraft facilities at a 1M WIBOR annualised rate. At the same time, the Group companies which use the overdraft facility from PKO BP S.A. incur the same cost of credit at the 1M WIBOR annualised rate on drawn amounts netted off with the free cash. Also, the Company held other free cash in short-term deposits placed with reputable banking institutions offering the 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 2014, the Company held PLN 27,419 thousand in bank accounts and short-term deposits, and held PLN 12 thousand of cash in hand.

All the Company’s cash as at December 31st 2014, discussed above, is disclosed in the Full-year separate financial statements of Grupa Azoty S.A. for the 12 months ended December 31st 2014, in Note 17 Cash, under “Cash and cash equivalents” (p. 62).

The Group earned a total of PLN 79 thousand in interest income on fixed-term deposits and from virtual cash pooling of funds deposited in accounts held with PKO BP.

Equity investments
In 2014, the Company made no equity investments.

4.5. Significant agreements

In 2014, the Company did not enter into any significant agreements.

4.6. Significant related-party transactions

In 2014, the Company did not execute any related-party transactions on terms other than arm’s length terms.

4.7. Significant R&D achievements

In accordance with the Company’s R&D strategy, the research conducted in 2014 was focused on improving the quality of the Group’s products, operational optimisation of selected production lines, as well as on innovative product development technologies. For this purpose the Company closely cooperated with a number of reputable universities and scientific institutions.

The most important R&D initiatives in 2014 included:

- In the area of fertilizers – 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. Work also continued on a comprehensive assessment of benefits from the application of the Company’s fertilizers to selected crops and their effectiveness.
- In the area of plastics – research into potential broadening of the product range by engineering new varieties of modified plastics, with the use of various additives enabling specialist application of the plastics, e.g. in the automotive industry.
- Research was also made to examine the possibility of reducing the costs of production of caprolactam, one of the Group’s key products, and further improving its quality (including through operational optimisation of selected centres), as well as enhancing the quality of polyoxymethylene (including with respect to reduction of emissions of residual formaldehyde).
- In the area of product diversification - research to develop a technology for production of technologically advanced materials and products.

During the PLASTPOL International Plastics and Rubber Processing Fair, Grupa Azoty received a medal in the ‘Modern Solutions for the Polish Industry’ category for its second generation Tarnoform plastic, characterised by low emissions of formaldehyde and intended for use in the automotive
industry. Moreover, in ‘Modern Solutions for the Polish Industry’ category, the fairs jury awarded the Company for its caprolactam-modified Tarnamid.

4.8. Environmental performance

Sustainable development
The Company operates in the commodity chemical sector. Aware of its impact, the Company places particular emphasis on minimising the effect of its industrial operations on the environment and has engaged in a number of initiatives with a view to ensuring harmony and balance with its environment.

The Company has worked out a strategic approach to sustainable development. It prepared the ‘Azoty Tarnów Sustainable Development Strategy for 2012−2016’; the Strategy is based on three pillars and outlines the Company’s path towards creating stakeholder value. It serves as the foundation for the Group’s strategy.

Legal requirements
In accordance with the Environmental Protection Law, the Company is required to adjust the permit it holds to the requirements stipulated in applicable laws.

In the reporting period, the following decisions were obtained for the Company:

- decision of the Marshal of the Province of Kraków, granting an integrated permit for the Hydrogen Plant (valid until June 19th 2022),
- decision of the Governor of the Province of Kraków, granting an integrated permit for the Park Infrastructure Complex (valid until June 30th 2016 for the CHP II plant and until December 31st 2016 for other units),
- decision of the Governor of the Province of Kraków, granting an integrated permit for the POM Manufacturing and Compounding Complex (valid until December 31st 2016),
- decision of the Governor of the Province of Kraków, granting an integrated permit for the Technical Grade Nitric Acid Unit, Calcium Ammonium Nitrate and Ammonium Nitrate Unit, Nitrogen Fertilizer Granulation Unit, and Dolomite Milling Unit,
- decision of the Governor of the Province of Kraków, granting an integrated permit for the PTFE and Fluorine Compounds Complex (valid until December 31st 2016),
- decision of the Marshal of the Province of Kraków, granting an integrated permit for the Caprolactam and Polyamide Complex (valid until December 31st 2016),
- decision of the Marshal of the Province of Kraków, amending the integrated permit granted for the Caprolactam and Polyamide Complex (with respect to the Natural Polyamide Unit, valid until December 31st 2016),
- decision of the Governor of the Province of Kraków, granting permit for release of gases and dusts into the air to Grupa Azoty S.A. (valid until December 28th 2024),
- decision of the Marshal of the Province of Kraków, granting permit for participation in the European Union Emissions Trading System to the CHP plant located on the Company’s premises (valid until September 12th 2022),
- decision of the Marshal of the Province of Kraków, granting permit for participation in the European Union Emissions Trading System with respect to greenhouse gas emissions from the
units manufacturing nitric acid, ammonia and organic chemicals in bulk by way of cracking, reforming, oxidation or similar processes, with a daily production capacity exceeding 100 Mg (valid until June 29th 2021),
- decision of the Mayor of Tarnów, granting permit for collective water supply and collective wastewater discharge (valid for an indefinite term),
- decision of the Governor of the Province of Kraków, granting permit for special use of water – water abstraction from an underground water source located in Tarnów-Mościce (valid until December 31st 2034),
- decision of the Governor of the Province of Kraków, granting permit for special use of water – surface water abstraction from the Dunajec river (valid until December 31st 2025),
- decision of the Governor of the Province of Kraków, granting permit for discharge of wastewater containing substances particularly harmful to the water environment into the sewer system of Zakład Oczyszczania Ścieków T.W. Sp. z o.o. (valid until June 8th 2015),
- decision of the Marshal of the Province of Kraków, granting permit for discharge of wastewater to surface waters (valid until December 31st 2017),
- decision establishing a protected zone for water intakes,
- water-law permit decision for use and maintenance of the weir on the Dunajec river (valid until December 31st 2015),
- decision of the Marshal of the Province of Kraków, granting permit for generation and recovery of waste (valid until December 21st 2020),
- resolution of the Local Government of the Province of Kraków establishing an Industrial Zone at ZAT S.A.

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

Rescue plans and safety management systems are in place at the Company facilities. Given the nature of its business, the Company is subject to the requirements of the Environmental Protection Law, the Water Law, the Waste Act, and other regulations on environmental protection. The legislation imposes certain obligations on the Company with respect to the production activities, investment projects, reclamation of contaminated soil and arrangement for appropriate conditions for the manufacture, storage, transport and distribution of substances. In 2014, the Company updated, and adapted to the current legal requirements, the Safety Report – General Section with analyses of process risk for units posing a major risk of serious chemical plant failure, Internal Rescue Operation Plan, Industrial Accident Prevention Programme and High Risk Establishment Notification. As required under the Environmental Protection Law, drills were run on the PA6 Polyamide unit to test the External and Internal Rescue Operation Plans, with the participation of external rescue services of the National Fire Service, Provincial Inspectorate for Environmental Protection and State Labour Inspection Authority.

Based on the Declaration to Improve Occupational Safety, Fire Protection and Environmental Protection in the Chemical Industry of October 17th 2013, an inspection was rerun with respect to the ammonia storage facilities of the Fertilizers Business Unit. The inspection was carried out jointly by the State Labour Inspection Authority, Provincial Inspectorate for Environmental Protection and National Fire Service, based on the inspection specification comprising Part I (Occupational Safety), Part II (Fire Protection), Part III (Environmental Protection) and Part IV (Common Issues).

The Company operates appropriate organisational and technical safety measures, such as CCTV systems, safeguards, and procedures for incident prevention and mitigation of consequences. Well-trained fire services capable of leading effective rescue operations, with additional support from chemical rescue teams and other services, are stationed at the facilities.
REACH
The Company adheres to the regulations that require thorough testing for hazardous properties of all marketed chemical substances, as well as introduction of usage rules and, in justified cases, usage restrictions and bans.

The Company has fulfilled the obligation to register all substances it manufactures.

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

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


The registration documents for other marketed products, submitted earlier to the European Chemicals Agency, are updated on an ongoing basis.

The Company fulfils its obligations as a downstream consumer of chemical substances on a regular basis. In 2014, updates and registration of chemicals and chemical substances were completed as required by the European Chemicals Agency. These registrations reflect the current scope of the Company’s business. Pursuant to the REACH Regulation, registration of further substances will be necessary in 2018. These substances are manufactured to a limited extent (less than 1,000 tonnes/year) and are of lesser importance for the Company’s revenue.

SPOT
Out of concern for people’s safety, property and the environment, the Company has joined the SPOT System of Assistance in Hazardous Material Transport, designed to limit the consequences of accidents in transport of hazardous materials by giving substantive and technical assistance to appropriate services. The largest chemical plants participate in the SPOT system.

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 as safely and reliably as possible.

Responsible growth
As part of its R&D initiatives, the Company seeks to implement solutions which will have a positive effect on the natural environment when completed. By using appropriate technologies it is possible to define emission thresholds to eliminate hazardous emissions or, should this prove impossible in practice, reduce the emissions and their effect on the environment as much as possible.

In 2014, the work in this area included:

- Optimisation of caprolactam production process. The work involved production optimisation of one of the Company’s main products, caprolactam, and consisted in technology enhancement designed to improve product quality and reduce heat consumption in the manufacturing process.
- Improvement of Tarnoform® production process. The work included research to optimise the Tarnoform® production process with a view to improving product quality and reducing the emissions of residual formaldehyde and feedstock consumption.
- Upgrade of iron-chromium catalyst production technology. Work was performed to modernise the iron-chromium catalyst production to improve product characteristics and minimise its environmental impact.
Environmental projects

- Flue gas desulfurisation unit and Flue gas denitration unit
  The projects have 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 projects 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. Both projects, expected to be completed between 2014 and 2016, are co-financed with the funds of the Norwegian Financial Mechanism 2009-2014.

- Upgrade of the interior of ammonia synthesis reactors
  The project is to reduce costs of ammonia production. 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 was completed in 2014, and the test run is planned for Q1 2015.

- Modernisation of handling stands
  In 2010−2014, the Company executed 18 projects connected with the modernisation of raw material and product loading and unloading stands. The projects were designed to adapt these stands to the new requirements of the Transport Technical Inspection, as well as to improve the safety of handling equipment and work conditions for the employees.

- Construction of a dust granulation system for the iron-chromium catalyst together with the sorting and dust removal stand
  In 2014, the project involving the installation of a dust compactor for the iron-chromium catalyst in the Catalyst Production Plant was completed. As a result, the volume of waste generated in the production of iron-chromium catalyst was reduced.

- Modernisation of the cold water pumping station in the Ammonia Department
  The project involved the modernisation of the cold water pumping station in the Ammonia Department, with a view to improving energy efficiency. The modernisation included the purchase and assembly of two pumping sets to replace the old pumps. Reduced electricity consumption is the environmental benefit of the project. The project has been completed.

Water and wastewater management

Water is used for industrial purposes, as a cooling agent, for drinking, to produce process waters, and by fire services.

The Company draws water from two sources – a surface intake on the right bank of the Dunajec river and an underground intake from Quaternary water-bearing formations (first aquifer). The allowed amounts of water drawn are specified in the relevant water-law permits.

The Company’s industrial facilities generate industrial wastewater, which is routed for treatment via an underground industrial sewer system and trestle-supported sewer lines.

The Company is well prepared for any wastewater system failure. In order to prevent wastewater escape, the system can be entirely shut off by closing the storm water outflow valve and pumping all wastewater to the Central Treatment Plant. It is also possible to flow the entire volume of wastewater to the Wastewater Treatment Facility operated by the Tarnów Water and Sewage Utility.

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

In 2014, over 3,500 thousand cubic metres of treated wastewater were discharged to the Biała Tarnowska River from the Central Wastewater Treatment Plant. For further treatment, 1,300 thousand cubic metres of industrial wastewater were discharged to the sewerage system of Zakład Oczyszczalni Ścieków Tarnowskich Wodociągów Sp. z o.o.
Solid waste management
The main types of waste generated by the Company are ash and slag. In 2014, 42.8 thousand tonnes of wet ash were landfilled and reused. 45 thousand tonnes of fly ash were delivered to customers for use in the construction industry.

The Company has developed and operates a comprehensive system for collection of ash from boilers at the in-house CHP II. 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 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.

In 2014, the Company generated 95.1 thousand tonnes of waste, including 77.5 tonnes of hazardous waste. Approximately 60% of hazardous waste was spent oils and lubricants, which were handed over to MIS-Polska, and subsequently transferred to a refinery where the waste is used to manufacture new oil.

Plastic waste is recycled in the Compounding PA6 and Compounding POM units. In 2014, 45 tonnes of plastics were recovered on these 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, in contracts with external providers of waste collection services and services involving generation of waste the Company has incorporated a clause whereunder the collected waste must be reused or neutralised in accordance with environmental protection laws and the waste act. The Company also works with Branżowa Organizacja Odzysku S.A. and the Polish Chamber of Commerce to meet the appropriate packaging waste recovery and recycling targets.

Emissions
The Company has implemented a range of environmental protection solutions, which help curb its air emissions. The air protection equipment reduces the amount of flue gases and dust discharged into the atmosphere.

Also, emission volumes and pollutant concentration levels are measured at major emitters. Measurements are taken on a continuous basis (at the CHP plant and the dual-pressure nitric acid unit) or on a periodic basis at selected process emitters. Emission volumes and pollutant concentrations are measured in keeping with the applicable legal and administrative requirements. As the in-house CHP plant and chemical plants have participated in the emissions trading scheme since 2005 and 2013, respectively, the Company reviews its annual reports and obtains rights on an annual basis.

Reduction of nitrous oxide emissions
The Joint Implementation Project, launched in the second half of 2008, was successfully completed at the end of 2012. 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.

The Company has been reducing emissions of nitrous oxide as a GHG since 2013, to the levels achieved during the Joint Implementation Project, in an effort to satisfy the BAT (Best Available Technique) criteria.

Noise emissions
As production processes tend to generate noise, the Company selects equipment with appropriate acoustic parameters for every new unit already at the design stage. In accordance with the integrated permits, noise generation must not exceed the permitted levels. This applies to both the noise at the workplace and the noise emitted outside. The Company monitors its noise emissions, and measures them in accordance with the requirements set out in the integrated permits.

According to meter readings, the noise generated near the Company facilities does not exceed the permitted levels.
4.9. Significant events

Letter of intent with KGHM Polska Miedź S.A.
On January 16th 2014, the Management Boards of the Company and KGHM Polska Miedź S.A. of Lubin signed a letter of intent outlining general terms on which the parties may collaborate in the areas of phosphogypsum processing, acquisition of potassium salt deposits abroad, accessing natural gas reserves, construction of a polygeneration power plant, and phosphate rock exploration and production.
Collaboration in these areas is a step towards the implementation of the Company’s strategy. In order to maintain production continuity and maximise utilisation of its production capacities, the Company seeks to secure strategic feedstock supplies from new or alternative sources, also by forming equity relationships with suppliers.

Letter of intent signed with chemical research institutes
The letter of intent was signed during the 2014 Polish Chemical Industry Congress on June 13th 2014. The purpose of the letter is to use the research potential and infrastructure of the institutes to help implement Grupa Azoty Group’s growth strategy. The cooperation is also expected to improve chances of success in applying for co-financing of business activities (e.g. from the Innovative Development Operational Programme).
As stated in the letter of intent, the Company will engage the research institutes to perform R&D work and develop strategic plans and growth programmes. It will also finance or co-finance these projects. The research institutes declared the intention to work with the Company on preparation of applications for co-financing of R&D work and give priority to projects carried out as part of the cooperation.

Execution of trade agreement with Comexport
Grupa Azoty and Comexport of Brazil executed a framework trade agreement. As declared in the agreement, Comexport will purchase Grupa Azoty’s polyamide, whose possible uses include production of structural fibres. The polymer sold to Comexport will ultimately be produced at the new PA6 plant in Tarnów. The new plant with an annual capacity of 80,000 tonnes is scheduled for launch in Q4 2016.
The agreement, signed on June 20th 2014, is also viewed as the basis for considering a potential joint venture project to further process the product in Brazil. The sale of polyamide to Brazil will be a continuation of the business relationship between Grupa Azoty and Comexport. At the end of 2013, as part of its negotiations of fertilizer contracts for the coming years, Grupa Azoty entered into a series of trade contracts with Comexport. The contracts for sale of ammonium sulfate produced in Tarnów and Puławy, as well as compound fertilizers produced in Police, are effective until the end of 2016.

Grupa Azoty placed on the list of the State Treasury’s strategic enterprises
On August 5th 2014, the Ministry of State Treasury announced that Grupa Azoty had been placed on the list of strategic enterprises. The ‘List of enterprises of strategic importance to Poland’s economy’ constitutes an appendix to the document ‘Priorities in managing enterprises supervised by the Minister of State Treasury until 2015’, whose first version was approved by the Council of the Ministry of State Treasury on April 30th 2014.
The list was reviewed by the Council of Ministers on August 5th 2014. In addition to Grupa Azoty, the list includes 21 other companies playing a leading role in Poland’s reindustrialisation.

Operationalisation of the Grupa Azoty Group’s Strategy

Verification of CO₂ emissions
An audit was carried out in early 2014 to verify the level of CO₂ emissions in 2013. The audit confirmed the calculated emission levels. To fulfil the statutory obligation, the verified CO₂ emission reports were sent to the National Administrator of the Emissions Trading System (KASHUE)
by March 31st 2014. Based on these reports, used emissions rights were redeemed by April 30th 2014.

The Company plans to carry out an audit in Q1 2015 to verify the 2014 CO₂ emission volumes and be able to submit the audit reports to KASHUE within the statutory deadline of March 31st 2015, and to redeem the rights in accordance with the reports by April 30th 2015.

In line with the adopted strategy, in 2014 the Company purchased reduction units required to settle the 2014 emissions.

Certificates of origin of electricity
One of the important points of the amended Energy Law was the reintroduction, as of April 30th 2014, of the support system for cogeneration plants, effective until 2018. Property rights allocated under the previous regime have expired and can no longer be used to settle obligations under the amended Energy Law.

The Company filed an application with the President of the Energy Regulatory Office, requesting that new energy certificates for 2014, confirming generation of electricity in high-efficiency cogeneration in 2014, be issued (for the period May-November 2014, and a separate application for December 2014). On February 12th 2015, the Company submitted to the President of the Energy Regulatory Office an annual report, verified by an auditor, confirming the amount of energy produced in high-efficiency cogeneration.

The Company expects to receive 119.6m property rights for 2014.

Property and third-party liability insurance
In H1 2014, the Group adopted a uniform Insurance Policy and implemented consolidated transport insurance and third-party liability insurance programmes for directors and officers of Grupa Azoty Group companies. Then a consolidated Group insurance programme was developed and adopted, covering the key areas of the Group’s operations and including property insurance, loss-of-profit insurance, transport insurance and third-party liability insurance for the period from July 1st 2014 to June 30th 2015. The insurance programme was confirmed by insurance policies from PZU, Warta and Hestia (and Allianz for transport insurance), acting as co-insurers.

Events after the end of the reporting period
Strategic cooperation with PKO BP S.A.
Following the execution of the strategic cooperation agreement of February 6th 2015, PKO BP S.A. will provide financing for the Group’s and the Company’s financial partners from the agricultural and food industry. In return, the Group will make its fertilizer distribution network available for sale of banking products, and both parties will launch joint marketing activities targeted at agricultural producers.

Thanks to stable financing in the form of credit facilities and factoring, Grupa Azoty Group’s agricultural customers will be able to improve their liquidity and expand their businesses. The benefit for the Grupa Azoty Group will be higher sales, and the Bank will have an opportunity to attract new customers and expand in the agricultural and food sector.

The agreement between the largest Polish bank and the leader of the domestic chemical sector is a part of the government’s strategy for cooperation between state-owned companies. In line with the strategy, joint investments are key to effective use of state assets and an increase in the value of assets of enterprises supervised by the Minister of the State Treasury. At the same time, PKO BP’s cooperation with the Grupa Azoty Group is to be one of the main elements of the bank’s new strategy for the agricultural and food sector.
5. Company’s current financial position

5.1. Assessment of factors and non-typical events having a material impact on the Company’s operations and financial performance

Volatility of exchange rates
The Group’s 2014 financial performance was affected by a number of factors and events, including the H1 2014 reversal of the long-term trend of USD depreciating against EUR, followed by continued appreciation of USD against EUR in the second half of the year, which caused PLN first to strengthen and then to weaken against USD over the same period, with PLN/EUR exchange rates remaining relatively stable throughout 2014.
This followed from strong economic growth and tighter monetary policy in the US, coupled with sustained weak GDP growth and deflation in the eurozone, as well as the escalating Russian-Ukraine conflict and the economic sanctions imposed on Russia by the European Union. On the other hand, the Polish economy maintained a satisfactory growth rate in H1 2014, to slow down slightly in H2 2014 as deflation continued.
Throughout 2014, the markets saw PLN weakened substantially against USD (by ca. 15.1%), and against EUR (by ca. 2.4%) relative to December 31st 2013. At the same time, the average PLN/USD exchange rate increased slightly by ca. 0.2% on 2013, as was the case with the average PLN/EUR exchange rate, which was up by about 0.3% on the 2013 average. As the average PLN/EUR and PLN/USD exchange rate was stable relative to 2013, it had no material effect on the Company’s performance in 2014, even though the PLN/USD exchange rate was highly volatile throughout the year.
Based on the Market Risk Management Policy under the 2014 Plan and in accordance with the internal guidelines of the Foreign Exchange Risk Committee, in 2014 the Company applied rolling hedges to up to 50% of its planned currency exposure under open contracts, with time horizons of up to twelve months from the hedge contract date.
In 2014, the Company’s hedging tools were EUR and USD swap forwards, reflecting its planned net exposure in both currencies.

5.2. Market overview
In 2014, the weakness of global economy continued, further contributing to subdued demand for chemicals in sectors which typically drive GDP growth, such as construction, automotive industry, household appliances and electronics. The prices along the entire supply chain remained stable, reflecting the low demand and, for the most part, easy availability of goods on the market. In August 2014, crude oil prices began their continuous and steep slide, pulling down prices of petroleum products. Consequently, the prices further along the supply chain started to decline, with the decrease finally manifesting itself in prices of such products as caprolactam or plastics.
Even though in the context of poor performance of EU economies Poland maintained a relatively good pace of GDP growth, certain indicators deteriorated, including export growth, which was however compensated by domestic sales.

Agro Fertilizers
Agricultural market
Exceptionally good weather conditions resulted in high grain yields, contributing to higher grain stocks. As a consequence, prices of agricultural produce fell. Between December 2013 and December 2014, the farm gate prices of basic agricultural products were down by an average of 10% (source: Polish Institute of Agricultural and Food Economics).
These adverse conditions were partially mitigated by direct subsidies from the Agency for Restructuring and Modernisation of Agriculture (payments began in December 2014), as well as other subsidy schemes under several aid programmes for the farming industry. The 2014 subsidiaries, which are to be distributed to 1,350 thousand Polish farmers, totalled PLN 14.2bn (2013: PLN 14.91bn).
Oil seed rape, wheat, rye and corn prices

Source: Ministry of Agriculture and Rural Development

Fertilizers market
In 2014, the fertilizers market was affected by low crop prices. The declining prices were attributable to high grain harvest forecasts both in the European Union and globally, as well as high grain stocks.

CAN, AN and AS prices

Source: Argus FMB

Ammonium nitrate/calcium ammonium nitrate (CAN)
In 2014, the average annual CAN prices increased marginally relative to 2013, whereas a slight decrease was seen in ammonium nitrate prices. The average annual price of CAN was up from EUR 242/tonne in 2013 to EUR 247/tonne in 2014, while ammonium nitrate prices fell from EUR 319/tonne in 2013 to EUR 314/tonne a year later.
Ammonium sulfate
Prices of ammonium sulfate went down year on year in 2014; the average annual price decreased from USD 161/t in 2013 to USD 133/t in 2014. In 2014, the ammonium sulfate market continued to see oversupply driven chiefly by the increase in Chinese production capacities.

Ammonia and urea prices

![chart](chart.png)

Source: ICIS, Argus FMB

Urea
In 2014, the global urea market was tight in terms of supply and demand. Production cuts (due to overhaul shut-downs), political situation (e.g. the Ukraine crisis) and a temporary surge in demand for urea in India had an impact on the prices. Eventually the prices slid on continued slowdown in this market segment in 2014 (attributable to, among other things, weaker demand for urea in the US in Q1 2014), and speculative behaviour of market players withholding their urea purchases in anticipation of price decline. Prices of urea went down year on year in 2014; the average annual price decreased from USD 329/tonne in 2013 to USD 314/tonne in 2014.

Ammonia
In 2014, both supply and demand on the ammonia market remained low. The greater demand for ammonia in the spring and in late October and early November 2014 was supported mainly by the US market, but it was not strong enough to weather unexpected snowfalls. It is estimated that US farmers applied only ca. 50% of the usual volume.
Due to significant and rapid changes in ammonia prices in 2014, the average annual ammonia price (FOB) rose year on year, from USD 477/tonne in 2013 to USD 493/tonne. The ammonia market in 2014 was chiefly affected by factory shut-downs and reduced output in Egypt, Trinidad, Russia, Algeria, Indonesia, Australia, Libya, Turkey, Saudi Arabia, Ukraine and Latvia, which were mainly caused by unit failures and reduced gas supply. The military conflict in Ukraine also had an impact on the market conditions, as the Yuzhny terminal (Black Sea, Ukraine) is an important world ammonia trade hub.
Plastics

Prices of caprolactam, PA6, benzene and phenol

Source: ICIS, Tecnon

Caprolactam
The caprolactam market depends heavily on demand for polyamide and on the cost of raw materials pegged to crude prices. Demand for caprolactam in Europe remained weak, albeit stable. In Europe and Asia the oversupply of caprolactam prevailed, resulting from the rapid growth of production in China. In 2014, the average annual price of liquid caprolactam (DDP WE) was EUR 1,900/tonne, compared with EUR 1,886/tonne in the previous year, while flaked caprolactam prices (CFR N.E.ASIA) stood at USD 2,255/tonne vs. USD 2,422/tonne a year ago.

Polyamide 6
The demand on the polyamide market remained stable throughout 2014. Construction of new production units in Asia starts to put the polyamide 6 market under significant stress, as it may lead to lower exports to the region, and even to 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). In 2014, however, the price increased by ca. 1%, to EUR 2,021/tonne.

Benzene
Until August 2014, contract prices of benzene remained high, which was not directly reflected on the European market for caprolactam and polyamide 6. The trend followed from strong demand for benzene (exports outside the EU), structural imbalance of supply and demand across the Atlantic basin, significant increase in demand on global markets (driven by higher purchases of European benzene by the United States) as well as speculative transactions (fall from the high price levels seen in May 2014). The benzene market was also affected by EUR/USD exchange rate fluctuations and falling prices of crude oil, in particular in November and December 2014, which contributed to a significant decline in benzene prices.

Year on year, a slight drop in benzene prices was observed: the average price in 2014 (FOB NWE) was EUR 995/tonne, compared with EUR 998/tonne in the previous year. The drop in oil prices in August 2014 brought about, although with some delay, a significant decline in benzene prices. Moreover, benzene imports began to arrive from the Middle East, which improved the supply and demand balance on the benzene market in Europe.

The Company has a diversified and secure portfolio of benzene suppliers.
Phenol
The market conditions were mainly affected by benzene prices. The average phenol capacity utilisation rate at Europe’s largest plants was relatively low. The conditions on the acetone market helped stabilise the phenol market also, supplies from non-European countries (spot) increased. Year on year, there was a slight decline in the average annual price of phenol, to EUR 1,576/tonne recorded in 2014, from EUR 1,582/tonne in 2013 (FD NWE).

Other Activities

Natural gas
The mild 2013/2014 winter, stable supplies, as well as the high level of stocks built for fear of the effect of the Russian-Ukrainian on gas availability in the European Union, resulted in saturation of the European market and consistent decline in gas prices at western gas hubs. Concurrently, in 2014 gas imports were much more economical than gas purchases from PGNiG at tariff price. The tariff price was slightly reduced at the beginning of the year and remained relatively unchanged until the year end despite a tariff change as in August 2014 due to a change in settlement rules, whereby gas is now settled based in energy units. Until September, gas prices on the Polish Power Exchange were strongly correlated with gas prices at German hubs, and before August, when PGNiG established a retail trading company which purchases gas on the Polish Power Exchange, the liquidity of the market was low. From then on, gas trading on the Polish Power Exchange increased significantly, but the prices oscillated closer to the tariff price.

Electricity
With the average temperature of 10.1°C, 2014 was one of the warmest years on record. Demand for electricity in the National Power Grid grew 0.6% year on year, with concurrent drop in electricity generated from conventional sources by ca. 4%. Wind-generated electricity grew only 26% relative to 2013, which resulted from several months of no-wind conditions and a lower number of completed new wind projects. Wind turbines covered 4.6% of Poland’s demand for electricity in 2014.

The average price of electricity on the Day-Ahead Market of the Polish Power Exchange grew 14.4% year on year, driven by the rising CO₂ prices, introduction of fees for operating reserves, and activities of the Transmission System Operator, involving a lack of possibility to import less expensive electricity or exchange energy between operators’ control areas. All these factors translated into higher electricity prices on the balancing market, where the average annual price grew 15.3% relative to the previous year.

On the forward market, contract prices for 2015 rose during 2014 by nearly PLN 20, while the average price of electricity for 2015 increased by PLN 8 on the price of corresponding contracts for 2014.

Coal
In 2014, coal production increased by 0.3%, withheld mostly by oversupply, low coal prices, lower exports to China, lower oil prices in H2 2014 and the overall macroeconomic conditions. Coal production in 2015-2016 is forecast to grow at an annual rate of ca. 0.9%.

According to the Economist Intelligence Unit, in 2014 the rise in coal consumption at merely 1% was the weakest in ten years.
Sulfur prices

Source: FERTECON, Profercy

Sulfur
In 2014, the average annual sulfur price was USD 160/tonne, up 3.7% year on year from USD 155/tonne in 2013 (NWE refinery Fertecon). Since April, when sulfur prices surged from USD 140/tonne to USD 167/tonne, the trading price has remained virtually the same. The reason for the rise in sulfur prices in Europe in Q2 2014 was limited supply (due to overhaul shut-downs of petrochemical units). The stability of the sulfur market in Europe was not shared by the global markets, where the price consistently grew in Q1 2014, to reach USD 200/tonne (FOB Persian Gulf). Higher global prices stemmed from reduced sulfur production in the Persian Gulf region and China, logistics difficulties resulting from a harsh winter in Russia and Canada, and increased sulfur imports by India and China. At the end of Q1 2014, the price of sulfur on the global markets supplied from the Persian Gulf region dropped by USD 50/tonne, chiefly due to lower volumes purchased by China (shut-down of fertilizer units). On the global markets, in Q3 and Q4 2014 the sulfur prices consistently deceased mainly as a result of limited production in the phosphate fertilizer industry, which is the largest sulfur consumer. In the Persian Gulf region, due to overstocking the sulfur price fell in Q4 2014 to USD 120/tonne (FOB Persian Gulf).

In December, the demand in China picked up and the global sulfur price in dated transactions for delivery in January began to rise, reaching USD 150/tonne (FOB Persian Gulf), with a potential for further growth.

5.3. Key financial and economic data

5.2.1. Key financial data

In 2014, the Company posted a positive EBITDA of PLN 62,510 thousand and net profit of PLN 214,633 thousand.

Year on year, these figures were up by PLN 52,213 thousand and PLN 170,516 thousand, respectively.

The table below compares the key items on the statement of profit and loss for 2014 and 2013.
The increase in revenue in 2014 was attributable to stronger sales in the Plastics segment. As revenue grew faster and cost of sales decreased, the Company posted a profit on sales and, as a consequence, earned a net profit of PLN 214,633 thousand for the year.

Although depreciation and amortisation, services and employee benefits increased relative to 2013, cost of sales was reduced on the back of lower raw materials and consumables used.

In 2014, the Company posted a PLN 14,007 thousand loss on other operating activities. Compared with 2013, the loss was reduced by PLN 46,877 thousand, mainly due to received compensation and refunded court fees, as well as lower amount of recognised impairment losses on property, plant and equipment (year on year).

There was a strong year-on-year rise in finance income, to PLN 129,424 thousand. The key items were dividends received and interest expense incurred.

### 5.2.2. Segments’ results

**EBIT by segment**

<table>
<thead>
<tr>
<th></th>
<th>Agro Fertilizers</th>
<th>Plastics</th>
<th>Energy</th>
<th>Other Activities</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue (PLN '000)</td>
<td>801,710</td>
<td>994,622</td>
<td>23,769</td>
<td>27,149</td>
</tr>
<tr>
<td>Share [%]</td>
<td>43.4</td>
<td>53.8</td>
<td>1.3</td>
<td>1.5</td>
</tr>
<tr>
<td>Net profit/(loss)</td>
<td>(12,156)</td>
<td>(4,993)</td>
<td>2,086</td>
<td>(173)</td>
</tr>
<tr>
<td>EBIT</td>
<td>(16,883)</td>
<td>(8,520)</td>
<td>546</td>
<td>(4,386)</td>
</tr>
</tbody>
</table>

Source: Company data.

Sales of the Company’s products are determined primarily by market conditions in the Agro Fertilizers and Plastics segments. In 2014, revenue posted by the Fertilizers segment was PLN 801,710 thousand, down 0.4% on the year before, while revenue in the Plastics segment amounted to PLN 994,622 thousand, up 3.8% year on year. Revenue posted by the Energy segment fell by more than half year on year (from PLN 53,857 thousand in 2013; however, it is important to note that a one-off swap transaction in EUA and CER emission allowances was executed in 2013). The highest profit on sales, also reflected in the level of EBIT, was earned by the Energy segment.
Agro Fertilizers
In 2014, revenue in the Agro Fertilizers segment was PLN 801,710 thousand and accounted for 43.4% of the Company’s total revenue. The revenue saw a slight decline year on year on somewhat lower sales volumes. Another contributory factor was a reduction in prices of nitrogen fertilizers. Most of the revenue was derived from the domestic market, where sales are over 50% higher than exports.

Plastics
In 2014, revenue in the Plastics segment was PLN 994,622 thousand and accounted for 53.8% of the Company’s total revenue. The revenue went up year on year, and most of it was derived from exports.

Energy Segment
In 2013, revenue generated by the Energy segment totalled PLN 53,857 thousand and accounted for 2.9% of total revenue. This share fell to 1.3% in 2014. The segment’s net profit was down year on year by PLN 4,831 thousand.

Other Activities
Revenue in the Other Activities segment in 2014 was PLN 27,149 thousand, down approximately 7.4% on the year before.
Sales by product group

Revenue by product group

Source: Company data.

The key items in the Company’s sales are plastics and intermediates (50.5%), followed by fertilizers (38.9%). Compared with 2013, the strongest growth in sales revenue was reported for plastics and intermediates. There were only slight movements in revenue from other products relative to 2013.

Source: Company data.
The structure of the Company’s sales changed in comparison with 2013. The share of nitrogen fertilizers fell by 0.7 pp, and of base chemicals - by 0.7 pp. The share of plastics and other sales increased by 2.4 pp and 1.0 pp, respectively. However, the changes were not significant, and the product structure was similar in the comparative periods.

5.2.3. Operating expenses

In 2014, operating expenses came in at PLN 1,833,672 thousand, down by PLN 4,662 thousand year on year. Cost of raw materials and consumables (the largest cost item) decreased by PLN 16,715 thousand, which was an effect of the optimisation strategy adopted by the Company, with other expenses down 20.5%, and taxes and charges down 0.5%. On the other hand, personnel costs, depreciation/amortisation charges and costs of services increased year on year.

### Operating expenses by nature

<table>
<thead>
<tr>
<th></th>
<th>2014</th>
<th>2013</th>
<th>change</th>
<th>% change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Depreciation and amortisation</td>
<td>91,753</td>
<td>89,283</td>
<td>2,470</td>
<td>2.8</td>
</tr>
<tr>
<td>Raw material and consumables used</td>
<td>1,218,751</td>
<td>1,235,466</td>
<td>(16,715)</td>
<td>(1.4)</td>
</tr>
<tr>
<td>Services</td>
<td>287,667</td>
<td>280,990</td>
<td>6,677</td>
<td>2.4</td>
</tr>
<tr>
<td>Salaries and wages, including overheads, and other benefits</td>
<td>171,674</td>
<td>163,028</td>
<td>8,646</td>
<td>5.3</td>
</tr>
<tr>
<td>Taxes and charges</td>
<td>42,321</td>
<td>42,513</td>
<td>(192)</td>
<td>(0.5)</td>
</tr>
<tr>
<td>Other expenses</td>
<td>21,506</td>
<td>27,054</td>
<td>(5,548)</td>
<td>(20.5)</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>1,833,672</td>
<td>1,838,334</td>
<td>(4,662)</td>
<td>-0.3%</td>
</tr>
</tbody>
</table>

Source: Company data.

### Operating expenses

- Depreciation and amortisation
- Raw material and consumables used
- Services
- Salaries and wages, including overheads, and other benefits
- Taxes and charges

Source: Company data.
Raw materials and consumables used were the largest component of operating expenses in 2014. Compared with 2013, their share in total expenses decrease only slightly. Salaries and wages increased.

5.2.4. Structure of assets, equity and liabilities

In 2014, the value of the Company’s assets rose to PLN 5,400,562 thousand. As at the end of 2014, non-current assets were PLN 4,881,906 thousand, and current assets stood at PLN 518,656 thousand. The most significant changes in assets in 2014 included:
- a 6.3% increase in trade receivables,
- a 7% increase in intangible assets,
- a 332.1% increase in cash and cash equivalents,
- an 11.5% decrease in investment property,
- a 48.0% increase in other assets,
- a 79.2% decrease in current tax assets,
- an 85.3% decrease in other financial assets.

<table>
<thead>
<tr>
<th>Structure of assets</th>
<th>2014</th>
<th>2013</th>
<th>change</th>
<th>% change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Non-current assets, including:</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Property, plant and equipment</td>
<td>4,881,906</td>
<td>4,883,941</td>
<td>(2,035)</td>
<td>0.0</td>
</tr>
<tr>
<td>Investment property</td>
<td>997,948</td>
<td>1,000,610</td>
<td>(2,662)</td>
<td>-0.3%</td>
</tr>
<tr>
<td>Intangible assets</td>
<td>13,407</td>
<td>15,154</td>
<td>(1,747)</td>
<td>(11.5)</td>
</tr>
<tr>
<td>Investments in subordinated entities</td>
<td>43,214</td>
<td>40,370</td>
<td>2,844</td>
<td>7.0</td>
</tr>
<tr>
<td>Available-for-sale financial assets</td>
<td>3,814,993</td>
<td>3,814,983</td>
<td>10</td>
<td>0.0</td>
</tr>
<tr>
<td>Current assets, including:</td>
<td>518,656</td>
<td>491,865</td>
<td>26,791</td>
<td>5.4</td>
</tr>
<tr>
<td>Inventory</td>
<td>238,378</td>
<td>236,749</td>
<td>1,629</td>
<td>0.7</td>
</tr>
<tr>
<td>Other financial assets</td>
<td>829</td>
<td>5,649</td>
<td>(4,820)</td>
<td>(85.3)</td>
</tr>
<tr>
<td>Current tax assets</td>
<td>2,133</td>
<td>10,268</td>
<td>(8,135)</td>
<td>(79.2)</td>
</tr>
<tr>
<td>Trade and other receivables</td>
<td>241,476</td>
<td>227,114</td>
<td>14,362</td>
<td>6.3</td>
</tr>
<tr>
<td>Cash and cash equivalents</td>
<td>27,431</td>
<td>6,349</td>
<td>21,082</td>
<td>332.1</td>
</tr>
<tr>
<td>Other current assets</td>
<td>8,302</td>
<td>5,611</td>
<td>2,691</td>
<td>48.0</td>
</tr>
<tr>
<td>Assets</td>
<td>5,400,562</td>
<td>5,375,806</td>
<td>24,756</td>
<td>0.5</td>
</tr>
</tbody>
</table>

Source: Company data.

The most significant changes in equity and liabilities in 2013 included:
- a 4.8% increase in equity,
- a 32.4% decrease in non-current liabilities on borrowings,
- a 10.0% increase in current liabilities on borrowings,
- a 12.5% decrease in trade and other payables,
- an 18.8% increase in non-current employee benefit obligations.


### Structure of equity and liabilities

<table>
<thead>
<tr>
<th>Item</th>
<th>2014</th>
<th>2013</th>
<th>change</th>
<th>% change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Equity</td>
<td>4,174,341</td>
<td>3,983,881</td>
<td>190,460</td>
<td>4.8</td>
</tr>
<tr>
<td>Non-current liabilities, including:</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Borrowings</td>
<td>448,168</td>
<td>617,167</td>
<td>(168,999)</td>
<td>(27.4)</td>
</tr>
<tr>
<td>Employee benefit obligations</td>
<td>347,263</td>
<td>513,827</td>
<td>(166,564)</td>
<td>(32.4)</td>
</tr>
<tr>
<td>Provisions</td>
<td>49,741</td>
<td>41,873</td>
<td>7,868</td>
<td>18.8</td>
</tr>
<tr>
<td>Deferred tax liabilities</td>
<td>24,374</td>
<td>22,781</td>
<td>1,593</td>
<td>7.0</td>
</tr>
<tr>
<td>Current liabilities, including:</td>
<td>778,053</td>
<td>774,758</td>
<td>3,295</td>
<td>0.4</td>
</tr>
<tr>
<td>Borrowings</td>
<td>442,976</td>
<td>402,883</td>
<td>40,093</td>
<td>10.0</td>
</tr>
<tr>
<td>Trade and other payables</td>
<td>225,052</td>
<td>257,177</td>
<td>(32,125)</td>
<td>(12.5)</td>
</tr>
<tr>
<td>Provisions</td>
<td>36,203</td>
<td>40,145</td>
<td>(3,942)</td>
<td>-9.8%</td>
</tr>
<tr>
<td>Other financial liabilities</td>
<td>70,328</td>
<td>67,982</td>
<td>2,346</td>
<td>3.5</td>
</tr>
<tr>
<td><strong>Total equity and liabilities</strong></td>
<td>5,400,562</td>
<td>5,375,806</td>
<td>24,756</td>
<td>0.5</td>
</tr>
</tbody>
</table>

Source: Company data.

### 5.4. Financial ratios

#### Profitability

In 2014, the profitability ratios improved year on year. Gross margin rose by 1.6pp on a slight increase in revenue (up 0.1%) and a strong rise in gross profit (up 15.5%). Negative EBIT was caused by the Company’s operating loss. However, it is important to note that the ratio improved on 2013 (up 2.7pp). The improved EBIT margin and higher depreciation/amortisation charges contributed to a 2.8pp year-on-year rise in EBITDA margin. The EBIT margin was up on higher profit on sales and lower operating expenses. During the reporting period, the return on capital employed turned negative on the back of negative EBIT. With an almost five-fold increase in net profit compared, net profit margin significantly improved, as did the other profitability ratios.

#### Profitability ratios

<table>
<thead>
<tr>
<th></th>
<th>2014</th>
<th>2013</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gross margin</td>
<td>12.0 %</td>
<td>10.4 %</td>
</tr>
<tr>
<td>EBIT margin</td>
<td>(1.6) %</td>
<td>(4.3) %</td>
</tr>
<tr>
<td>EBITDA margin</td>
<td>3.4 %</td>
<td>0.6 %</td>
</tr>
<tr>
<td>Net margin</td>
<td>11.6 %</td>
<td>2.4 %</td>
</tr>
<tr>
<td>ROE</td>
<td>4.0 %</td>
<td>0.8 %</td>
</tr>
<tr>
<td>Return on capital employed</td>
<td>(0.6) %</td>
<td>(1.7) %</td>
</tr>
<tr>
<td>ROE</td>
<td>5.1 %</td>
<td>1.1 %</td>
</tr>
<tr>
<td>Return on non-current assets</td>
<td>4.4 %</td>
<td>0.9 %</td>
</tr>
</tbody>
</table>

Source: Company data.
Ratio formulas:

- Gross margin = gross profit (loss) / revenue (statement of comprehensive income by function)
- EBIT margin = EBIT / revenue
- EBITDA margin = EBITDA / revenue
- Net profit margin = net profit (loss) / revenue
- 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
- ROE (return on equity) = net profit (loss) / equity
- Return on non-current assets = net profit (loss) / non-current assets

Liquidity

As at the end of 2014, the Company’s liquidity ratios improved year on year as a result of a decrease in current liabilities, including in particular those related to bank and other borrowings.

Liquidity ratios

<table>
<thead>
<tr>
<th></th>
<th>2014</th>
<th>2013</th>
</tr>
</thead>
<tbody>
<tr>
<td>Current ratio</td>
<td>0.7</td>
<td>0.6</td>
</tr>
<tr>
<td>Quick ratio</td>
<td>0.3</td>
<td>0.3</td>
</tr>
<tr>
<td>Cash ratio</td>
<td>0.0</td>
<td>0.0</td>
</tr>
</tbody>
</table>

Source: Company data.

Ratio formulas:

- Current ratio = current assets / current liabilities
- Quick ratio = (current assets - inventory - current prepayments and accrued income) / current liabilities
- Cash ratio = (cash + other financial assets) / current liabilities

As a result of the changes in current assets and liabilities, as at December 31st 2014 working capital was negative at PLN (259,397) thousand.

Changes in working capital

![Bar chart showing changes in working capital from Dec 31 2012 to Dec 31 2014.]

Source: Company data.

Operating efficiency

Inventory turnover increased, primarily due to a slight increase in inventories and the reduction in cost of sales. The average collection period was slightly longer, at 47 days. The average payment period shortened on lower liabilities to cost of sales. All these changes resulted in a cash conversion cycle of 56 days.
Operating efficiency ratios

<table>
<thead>
<tr>
<th></th>
<th>2014</th>
<th>2013</th>
</tr>
</thead>
<tbody>
<tr>
<td>Inventory turnover</td>
<td>53</td>
<td>52</td>
</tr>
<tr>
<td>Average collection period</td>
<td>47</td>
<td>49</td>
</tr>
<tr>
<td>Average payment period</td>
<td>50</td>
<td>56</td>
</tr>
<tr>
<td>Cash conversion cycle</td>
<td>50</td>
<td>45</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 the financing risk. The interest cover ratio rose significantly as the Company maintains its ability to pay interest when due.

Debt ratios

<table>
<thead>
<tr>
<th>Ratio</th>
<th>2014</th>
<th>2013</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total debt ratio</td>
<td>22.7 %</td>
<td>25.9 %</td>
</tr>
<tr>
<td>Long-term debt ratio</td>
<td>8.3 %</td>
<td>11.5 %</td>
</tr>
<tr>
<td>Short-term debt ratio</td>
<td>14.4 %</td>
<td>14.4 %</td>
</tr>
<tr>
<td>Equity-to-debt ratio</td>
<td>340.4 %</td>
<td>286.2 %</td>
</tr>
<tr>
<td>Interest cover ratio</td>
<td>668.0 %</td>
<td>181.4 %</td>
</tr>
</tbody>
</table>

Source: Company data

**Ratio formulas:**
- **Total debt ratio** = total liabilities / total assets
- **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** = (profit before tax + interest expense) / interest expense

5.5. *Explanation of differences between actual performance and financial forecasts for 2014*

No forecasts for 2014 were published.
5.6. Management of capital and assets

In 2014, the Company’s liabilities under bank and other borrowings fell from PLN 916,710 thousand to PLN 790,239 thousand; in particular, the Company made repayments under the investment facilities contracted in previous years to finance its equity investments in Grupa Azoty PULAWY and Grupa Azoty SIARKOPOL.

It is important to note that the Company holds free cash (PLN 27,431 thousand as at December 31st 2014) and has access to unused overdraft and multi-purpose facilities (PLN 19,202 thousand as at December 31st 2014), factoring and discounting facilities (PLN 69,992 thousand as at December 31st 2014), and a sub-limit under the Group overdraft facility (PLN 156,810 thousand). With these financing sources available, the Company has low exposure to liquidity risk.

In 2014, the Company did not default on any of its liabilities or financial covenants where such default would trigger acceleration of the liabilities.

In 2014, the Company was not refused any bank borrowings and none of its bank borrowings was terminated.

In the opinion of its strategic lenders the Company has a sound liquidity position and enjoys high credit standing. Considering the above, even if a potential economic slowdown occurs, the Company believes that there is no threat or risk which could materially adversely affect its liquidity position or lead to loss of liquidity.

Furthermore, as the consolidation process progressed, objectives of the Group’s 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 capabilities,
- strong liquidity position of the Grupa Azoty Group was maintained, with the management of free cash at the Group companies optimised.

These objectives were pursued in 2014 through the following measures:

- management of cash pooling and overdraft sub-limits available to the Grupa Azoty Group within a global limit provided by PKO BP, 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 capabilities,
- 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,
- approach to shaping the subsidiaries’ dividend policies, adapted to the financing requirements of Grupa Azoty and its subsidiaries’ investment strategy,
- development and adoption of a Group Liquidity Management and Financing Policy consistent with the implemented Group Financing Model.

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

In 2014, the Company incurred capital expenditure of PLN 70,298 thousand, which it financed with own funds and, to a lesser extent, with lease arrangements.

The Company is also able to finance its investment plans using either current or expected free operating cash flows (EBITDA), as well as investment credit facilities and other borrowings.
5.8. Credit facility and loan agreements executed or terminated during the financial year

In 2014, none of the Company’s credit facility agreements, loan agreements or other borrowing agreements were terminated.

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

Annexes to investment credit facility agreement with BGŻ S.A.
On January 14th 2014, the Company and BGŻ S.A. executed an annex to the investment credit facility agreement for financing of the modernisation of sulfuric acid unit, whereby individual repayments were proportionately reduced to reflect partial use of the facility (from PLN 45,000 thousand to PLN 43,662 thousand) following the project completion.

Annexes to receivables discounting agreement with mBank (formerly BRE Bank)
On January 20th 2014, March 31st 2014, June 23rd 2014, and August 26th 2014 the Company and mBank S.A. executed annexes to the receivables discounting agreement, whereby the financing limit was raised from EUR 17m to EUR 18m and, subsequently, from EUR 18m to EUR 20m, the agreement validity period was extended until September 23rd 2015, the parties agreed on measures ensuring greater flexibility of settlements under the agreement, and the agreement service costs were reduced.

Overdraft facility with PKO BP
On April 16th 2014, the Company, acting also on behalf of the other Group companies, executed an annex to the overdraft facility agreement; the scope of the agreement was extended to include Grupa Azoty Siarkopol S.A. as a potential borrower and to adjust the amounts of available sub-limits to their most recent allocation for the period April 1st−October 1st 2014. Subsequently, a new allocation of overdraft sub-limits was made by the Group for the period October 1st 2014−April 1st 2015.

On February 19th 2014, the Company, acting also on behalf of the other Group companies, executed an annex to the virtual cash-pooling agreement with PKO BP; the scope of the agreement was extended to include Grupa Azoty Siarkopol S.A.

Receivables discounting agreement with mBank
On September 24th 2014, the Company and mBank S.A. executed a new receivables discounting agreement (concerning receivables from third parties) with the agreed limit of EUR 7m, valid until November 1st 2015.

Significant financing agreements executed or annexed in 2014 and until the date of this Report:

<table>
<thead>
<tr>
<th>Agreement date</th>
<th>Annex date</th>
<th>Currency</th>
<th>Amount</th>
<th>Maturity</th>
</tr>
</thead>
<tbody>
<tr>
<td>Annex to investment credit facility agreement for modernisation of sulfuric acid unit with BGŻ</td>
<td>Mar 30 2012</td>
<td>Jan 14 2014</td>
<td>PLN 45,000</td>
<td>Jun 30 2014−Dec 12 2017 After amendment: 43,662</td>
</tr>
<tr>
<td>Annex to receivables discounting agreement with mBank S.A. (concerning receivables from a subsidiary) with mBank</td>
<td>Jul 30 2010</td>
<td>Aug 26 2014</td>
<td>EUR 20,000</td>
<td>Sep 23 2015</td>
</tr>
<tr>
<td>Annex to overdraft facility agreement between the Grupa Azoty Group and PKO BP</td>
<td>Oct 1 2010</td>
<td>Apr 16 2014</td>
<td>PLN 302,000</td>
<td>Sep 30 2016</td>
</tr>
<tr>
<td>Receivables discounting agreement (concerning receivables from third parties) with mBank</td>
<td>Sep 24 2014</td>
<td>EUR 7,000</td>
<td>Nov 1 2015</td>
<td></td>
</tr>
</tbody>
</table>

Source: Company data
5.9. Loans, including in particular loans granted to/received by the Company’s related entities

Loans
The revolving loan agreement, executed on December 23rd 2013 by the Company and Grupa Azoty SIARKOPOL, was in effect in 2014. The agreement was concluded for the period until December 31st, 2017, and bore interest at 1M WIBOR + margin. As at December 31st, 2014, the total amount due to Grupa Azoty SIARKOPOL under the agreement was PLN 50,000 thousand.

On March 14th 2014, the Company and Grupa Azoty ZAK executed an annex to the PLN 70,000 thousand loan agreement of June 14th 2011, whereunder the parties agreed to extend the loan maturity date from March 31st 2014 to December 31st 2014 and to adjust the loan margin to reflect a previous change of the margin on the multi-purpose credit facility which was the source of funding for the loan.

On December 30th 2014, the Company and Grupa Azoty ZAK S.A. executed another annex to the loan agreement of June 14th 2011, extending the loan maturity date from December 31st 2014 until June 30th 2015.

Moreover, under a EUR 6,000 thousand loan granted by the Company to its subsidiary Grupa Azoty ATT Polymers GmbH in January 2010, the borrower made timely repayment of another 12 monthly instalments in the period from January to December 2014. The loan was repaid in full. In 2014, the Company’s interest income earned on the loan was PLN 138 thousand.

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

The Grupa Azoty Group’s related parties did not grant any sureties or guarantees to the Company. In 2014, the following guarantees were issued upon the Company’s instruction:

Guarantees issued or annexed upon instruction from the Company in 2014

<table>
<thead>
<tr>
<th>Type and parties</th>
<th>Issue date</th>
<th>Security deposit for</th>
<th>Amount (PLN ‘000)</th>
<th>Validity date</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bank guarantee issued by PKO BP S.A. for the benefit of Operator Gazociągów Przesyłowych GAZ - SYSTEM S.A. (on June 24th 2014, Annex 1 was signed to increase the guarantee amount from PLN 406 thousand to PLN 1,768 thousand; on July 23rd 2014 Annex 2 was signed to increase the guarantee amount from PLN 1,768 thousand to PLN 2,009 thousand)</td>
<td>Apr 29 2014</td>
<td>Gas transmission contract</td>
<td>2,009</td>
<td>Feb 28 2015</td>
</tr>
<tr>
<td>Bank guarantee issued by PKO BP S.A. for the benefit of Operator Gazociągów Przesyłowych GAZ - SYSTEM S.A. (on June 24th 2014, Annex 1 was signed to increase the guarantee amount from PLN 163 thousand to PLN 601 thousand; on July 23rd 2014 Annex 2 was signed to increase the guarantee amount from PLN 601 thousand to PLN 1,271 thousand)</td>
<td>Apr 29 2014</td>
<td>Gas transmission contract</td>
<td>1,271</td>
<td>Feb 28 2015</td>
</tr>
<tr>
<td>Bank guarantee issued by PKO BP S.A. for the benefit of OGP GAZ-SYSTEM S.A. (on November 25th 2014 Annex 1 was signed to extend the guarantee term from November 30th 2014 to September 30th 2017)</td>
<td>Apr 29 2014</td>
<td>Gas transmission contract</td>
<td>9</td>
<td>Sep 30 2017</td>
</tr>
<tr>
<td>Bank guarantee issued by PKO BP S.A. for the benefit of Warsaw Trade Tower sp. z o.o. S.K.A. of Warsaw</td>
<td>Jul 23 2014</td>
<td>Rental agreement (EUR 69 thousand)</td>
<td>295</td>
<td>Sep 29 2017</td>
</tr>
</tbody>
</table>

Source: Company data.
Sureties provided by the Company for obligations of its related entities, as at December 31st 2014

<table>
<thead>
<tr>
<th>Type</th>
<th>Beneficiary</th>
<th>Details</th>
<th>Currency</th>
<th>Issue</th>
<th>Issue date</th>
<th>Dec 31 2014</th>
<th>Dec 31 2013</th>
</tr>
</thead>
<tbody>
<tr>
<td>Letter of comfort / Zakłady Azotowe w Tarnowie - Mościcach S.A.</td>
<td>Envia Mitteldeutsche Energie AG Germany</td>
<td>Security for payment of ATT Polymers GmbH’s liabilities</td>
<td>EUR</td>
<td>May 24 2010</td>
<td>1,000</td>
<td>1,000</td>
<td></td>
</tr>
<tr>
<td>Letter of comfort / Zakłady Azotowe w Tarnowie - Mościcach S.A.</td>
<td>Envia THERM GmbH Kraków Province Fund for Environmental Protection and Water Management</td>
<td>Security for payment of Grupa Azoty KOLTAR Sp. z o.o.’s liabilities under loan agreement</td>
<td>PLN</td>
<td>Mar 22 2012</td>
<td>1,904</td>
<td>1,904</td>
<td></td>
</tr>
</tbody>
</table>

EUR-denominated liabilities were translated into PLN at the EUR/PLN mid rates quoted by the NBP for December 31st 2014: 4.2623, and for December 31st 2013: 4.1472.

Guarantees provided by banks upon the Company’s instruction within the available credit limits - as at December 31st 2014

<table>
<thead>
<tr>
<th>Type</th>
<th>Beneficiary</th>
<th>Details</th>
<th>Currency</th>
<th>Issue</th>
<th>Issue date</th>
<th>Dec 31 2014</th>
<th>Dec 31 2013</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bank guarantee issued by PKO BP S.A.</td>
<td>Warsaw Trade Tower sp. z o.o. S.K.A. of Warsaw</td>
<td>Timely payments and performance of other obligations under lease agreement</td>
<td>EUR</td>
<td>Oct 14 2013</td>
<td>69</td>
<td>38</td>
<td></td>
</tr>
<tr>
<td>Bank guarantee issued by PKO BP S.A.</td>
<td>Customs Chamber in Kraków</td>
<td>Security for customs procedures</td>
<td>PLN</td>
<td>Dec 14 2011, together with Annexes</td>
<td>800</td>
<td>800</td>
<td></td>
</tr>
<tr>
<td>Bank guarantee issued by PKO BP S.A.</td>
<td>GAZ-SYSTEM S.A.</td>
<td>Gas transmission contract</td>
<td>PLN</td>
<td>Apr 29 2014, together with Annexes</td>
<td>3,289</td>
<td>-</td>
<td></td>
</tr>
</tbody>
</table>

EUR-denominated liabilities were translated into PLN at the EUR/PLN mid rates quoted by the NBP for December 31st 2014: 4.2623, and for December 31st 2013: 4.1472.
### Promissory notes

<table>
<thead>
<tr>
<th>Beneficiary</th>
<th>Details</th>
<th>Currency</th>
<th>Date issued</th>
<th>Dec 31 2014</th>
<th>Dec 31 2013</th>
</tr>
</thead>
<tbody>
<tr>
<td>PKN Orlen S.A.</td>
<td>Trade credit security (trade payables)</td>
<td>PLN</td>
<td>Sep 2 2011</td>
<td>25,000</td>
<td>25,000</td>
</tr>
<tr>
<td>Polimex-Mostostal Siedlce S.A.</td>
<td>Liabilities under advance payment bond for contract with CNCCC China</td>
<td>USD</td>
<td>Jan 26 2005</td>
<td>590</td>
<td>590</td>
</tr>
<tr>
<td>Director of Customs Chamber in Kraków</td>
<td>Security for existing and future excise tax liabilities</td>
<td>PLN</td>
<td>Dec 20 2012</td>
<td>330</td>
<td>330</td>
</tr>
<tr>
<td>Director of Customs Chamber in Kraków</td>
<td>Security for existing and future excise tax liabilities</td>
<td>PLN</td>
<td>Aug 7 2012</td>
<td>1,050</td>
<td>1,050</td>
</tr>
<tr>
<td>National Fund for Environmental Protection and Water Management</td>
<td>Security for repayment of funds provided for implementation of ash utilization project</td>
<td>PLN</td>
<td>Aug 9 2010</td>
<td>4,588</td>
<td>4,588</td>
</tr>
<tr>
<td>National Fund for Environmental Protection and Water Management</td>
<td>Security for grant repayment</td>
<td>PLN</td>
<td>Dec 12 2013</td>
<td>358</td>
<td>358</td>
</tr>
<tr>
<td>Head of Customs Office of Nowy Sącz</td>
<td>Security for excise tax</td>
<td>PLN</td>
<td>Jun 25 2014</td>
<td>200</td>
<td>-</td>
</tr>
</tbody>
</table>

**USD-denominated liabilities were translated into PLN at the USD/PLN mid rates quoted by the NBP for December 31st 2014: 3.5072, and for December 31st 2013: 3.0120.**
5.11. Financial instruments - risk management policy and risk management instruments, objectives and methods

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

In 2014, the Company applied the risk management policy adopted by all key companies of the Group in which such risk exists.

Also in 2014 the Group’s Management Board developed and adopted ‘Policy of Financial Risk Management (currency risk and interest rate risk)’; the policy is one of the tools used to implement the Group’s centralised Financing Model.

Credit risk

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

Credit risk arises principally from the trade receivables, bank deposits and cash-pooling. 49.3% of trade receivables are trade receivables due from non-related parties. 82.1% of the Company’s trade receivables from non-related parties are insured under trade credit insurance policies issued by Korporacja Ubezpieczeń Kredytów Eksportowych S.A., which limits the credit risk to the amount of deductible (5-10% of the insured receivables). The insurance policy provides a tool for on-going monitoring of customer’s current financial position and debt recovery when required. Additionally, upon customer’s real or legal insolvency, the Company receives the compensation payment amounting to 90-95% of insured receivable’s value. 8.3% of trade receivables from non-related parties are secured by guarantees, letters of credit, and sureties.

Trade receivables from related parties, accounting for 50.7% of total trade receivables, are not insured.

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

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

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

Receivables from foreign customers accounted for approximately 73.5% (December 31st 2013: 73.6%) of the Company’s total trade receivables, with the balance of 26.5% representing domestic trade receivables (December 31st 2013: 26.4%). The Company’s revenue is derived from two main segments reflecting the Company’s business profile. Customers of the Plastics segment are the largest customer group, accounting for 78.0% of total trade receivables (December 31st 2013: 75.5%). In this segment foreign customers prevail, to which sales are made on deferred payment terms within insured credit limits. Another significant group of the Company’s trade receivables relate to the Agro Fertilizers Segment - 14.0% (31 December 2013: 20.9%) of total trade receivables. The group is dominated by domestic customers, where some sales are made on a prepaid basis; if a trading partners proves creditworthy, it is granted trade credit within insured credit limits.

Cash and cash equivalents. Bank deposits

Cash and cash equivalents are held at banks having high ratings and which maintain safe solvency ratios.
Liquidity risk
Liquidity risk is the risk that the Company will not be able to repay its financial liabilities when due. The risk is minimised through appropriate liquidity management, carried out by correctly determining cash resources based on cash flow projections for various time horizons. In its capacity as the Parent, the Company optimises free cash management through cash-pooling, revolving facilities and dividend policy in the Group, therefore the liquidity risk is very low. The Company also manages the overdraft facilities of the Group entities and holds free factoring and discounting limits, further reducing the liquidity risk. In 2014, the Company did not default on any of its liabilities or financial covenants where such default would trigger acceleration of the liabilities.

Market risk
Currency risk
The Company is exposed to the currency risk on foreign currency transactions including more than the two-thirds of revenue and one third of expenses. Exchange rate fluctuations affect the revenue and costs of raw materials. The appreciation of the domestic currency has a negative impact on the profitability of export and domestic sales denominated in foreign currencies. The depreciation of the domestic currency positively impacts the profitability. Changes in the value of export revenues and domestic revenues measured in foreign currencies resulting from the exchange rate fluctuations are partially offset by the changes in costs of imported raw materials which significantly reduces the Company’s exposure to the currency risk.

The Company considers the current and planned net currency exposures and reduces the existing currency risk resulting from the net currency exposure by using selected hedging instruments and activities. In the reporting period the Company used primarily natural hedging, factoring of receivables denominated in foreign currencies, and currency forwards covering up to 50% of other currency exposures.

Pursuant to the new ‘Policy of Financial Risk Management (currency risk and interest rate risk)’, the Company may enter into hedging transactions with horizons of up to 24 months (as long as it reduces the adverse impact of fluctuations in exchange rates on the Company’s cash flows, and it is possible to secure the EUR/PLN or USD/PLN exchange rate which exceeds the exchange rate planned in the budget) and up to 3 months (if it is possible to hedge the exchange rate at which a commercial transaction was executed if the exchange rate was below the budgeted rate).

Pursuant to the Finance Committee’s instruction, execution of a currency hedging transaction must be approved by the Management Board if its hedge horizon is more than 24 months or if the transaction does not conform to the Policy of Financial Risk Management.

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

The activities aimed to reduce the interest rate risk include ongoing monitoring of the situation in the money market. The Company’s cash surpluses in 2014 were mostly used in the virtual cash-pooling facility, and earned interest at 1M WIBOR, and the remaining part was held as short-term interest-bearing bank deposits with the interest based on market rates prevailing as at the date of placing the deposit.

In the reporting period, WIBID and WIBOR rates were steady in H1 2014, but then fell again in H2 2014, following the Monetary Policy Council’s decision to reduce interest rates. The rates were reduced due to the continued deflation and slowdown of GDP growth; the decisions had a positive effect on the interest rates paid by the Company on its bank borrowings and loans in 2014, and reduced interest expenses on the Company’s financial liabilities.

The interest received on bank deposits proportionately reflected the average variable interest rates on financial liabilities.
Risk of changes in prices of raw materials, products and services
In order to reduce the risk, the Company takes steps to include such provisions in sales contracts which are symmetric to the provisions included in its supply contracts (e.g. references to ICIS-LOR quotations).

Fair value of financial instruments
Details of the fair value of financial instruments, where measurement is possible, are presented below:
- Cash and cash equivalents, short-term bank deposits and short-term bank borrowings. 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 borrowings. Carrying amounts of such instruments approximate their fair value due to the variable interest rates.
- Currency derivatives. Carrying amounts of such instruments are equal to their fair value.
- Available-for-sale financial assets. Carrying amounts of such instruments are equal to their fair values.

There were no financial instruments recognised by the Company in 2014 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 2014, the nominal value of open currency derivatives (forward contracts) amounted to EUR 17.0 million (EUR 3.0 million with maturity in January 2015, EUR 3.5 million with maturities in February and in March 2015 each, EUR 2.5 million with maturity in April 2015, EUR 1.5 million with maturities in May and June 2015 each, and EUR 0.5 million with maturities in July, August and September 2015 each). As at the end of 2014, the Company did not have any open positions on USD-denominated derivatives.

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

The Company measures futures contracts for emission rights at fair value, based on valuations provided by the relationship banks and data sourced from electronic data providers. Transactions are concluded with reliable banks and are based on framework agreements. All derivative futures reflect the real transactions resulting from actual greenhouse gas emissions in 2014. Futures contracts for emission rights are executed based on the amount of the Company’s deficit of CO2 emission allowances (EUA), and their purpose is to reduce the effect of fluctuations of the market price of the allowances on the Company’s financial performance.

Fair value of derivatives
The fair value of open currency forwards as at December 31st 2014 amounted to PLN (738) thousand and was recognised as other financial liabilities (as at December 31st 2013: PLN 501 thousand, recognised as other financial assets). No hedging relationships were designated in this group.
5.12. Company’s expected financial standing

The Company is fully solvent, with good credit standing. This means that the Company is able to pay its liabilities as they fall due and to hold and generate free operating cash flows to further support payment of such liabilities. In 2014, the Company paid all of its borrowing-related liabilities when due, and there is no threat to the Company’s ability to continue servicing its debt. In 2014, the Company also paid out dividend from its 2013 profit, as per relevant profit distribution resolutions passed by the Annual General Meeting.

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

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

The Company’s Budget for 2015 takes into account all market forecasts available to the Company and 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.

Furthermore, the Group has obtained binding decisions from commercial and multilateral banks to provide the Company with a long-term revolving credit facility for five years and long-term credit facilities for 10 years; relevant agreements are expected to be executed after the date of this report to ensure availability of financing of the investment plans and other objectives outlined in the Company’s and the Group’s long-term Strategy.

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

6.1. Significant risk factors and threats

The Company is exposed to various risks which may have an impact on its operations, financial standing and results or share performance.

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

Risk related to the structural change on the global caprolactam market

A rapid growth of caprolactam production capacities in China results in gradual reduction of caprolactam imports by China, which in turn has a significant effect on the global supply and demand balance in the caprolactam-polyamide and ammonium sulfate product chains.

To minimise the effect of projected market trends, the Company has undertaken a number of initiatives to strengthen its competitive position:

- Construction of a new PA6 unit with annual production capacity of 80 kt in Tarnów will help achieve balance in terms of caprolactam production at Grupa Azoty S.A. (addition of 10 kt per year) and Grupa Azoty Zakłady Azotowe Puławy S.A. (addition of 70 kt per year). Extension of the PA6 product chain will be an additional benefit.
- The Company is in the final stages of obtaining all required permits and approvals for construction of a new Modified Plastics Facility within the Kraków Special Economic Zone that will help further expand the PA6 product chain.
- The Company has taken steps aimed at intensifying its production of PA6 casings that will expand the PA6 product chain into a segment that is not competitive to compounding.
- As far as cost-cutting measures are concerned, a long-term caprolactam manufacturing cost reduction programme was prepared. The programme envisages modernisation projects leading to permanent reduction of manufacturing costs.
- Steps have been taken to fully leverage the synergies between Tarnów’s and Puławy’s installations achieved through the integration of the companies’ production and sales potential.
- The Company is focused on meeting customer expectations by offering new products tailored to specific customer needs.
- It seeks to optimise the portfolio of its raw material suppliers, with particular emphasis on direct partnerships with producers under long-term strategic contracts, and to develop an optimum procurement logistics model.
• The Company is active internationally as a member of European industry organisations, such as Plastics Europe, and monitors the situation for any possible threats to be able to take necessary steps and mitigate adverse effects of such negative developments.

Risk related to operation of the power generation system
The maladjustment of the EC2 CHP plant’s infrastructure to the demand structure may adversely affect the output of co-generated heat and power or electricity produced from steam-cycle based generation if supply of steam falls below the turbines’ minimum load. If power production drops, the electricity deficit must be purchased on the wholesale market at cost higher than the cost of its generation at the EC2 CHP plant.
In 2014, the CHP plant generated:
• 2,105,466 GJ of process steam,
• 478,178 GJ of heat for heating purposes,
• 473 GWh of electricity.
The electricity deficit of 17 GWh was covered with purchases on the wholesale market.
In December 2014, a contract was signed for implementation of a project involving installation of a low pressure turbine at the EC2 CHP plant, whose task will be to control workloads of the back-pressure turbines and enable their operation notwithstanding the level of demand for heat from the Company’s production units.
The project completion is scheduled for 2016. Once the low-pressure turbine is put into operation, the risk discussed above will be minimised.

Risk related to availability and efficiency of capital and other sources of funding
One of the factors important pivotal for the successful development of the Company business is implementation of strategic projects and the related availability of capital, as discussed in Operationalisation of the Strategy for 2013–2020.
There is a risk that insufficient access to capital or other sources of funding, or availability of such capital or other sources of funding at excessive cost, might adversely affect prospects for the Company’s development and implementation of its strategy or that the Company might use the available capital in an inefficient manner and thus achieve returns that fall short of investors’ expectations.
This risk may be aggravated, among other things, if:
• the Company’s indebtedness rises above the level agreed with the banks, in which case the Company’s ability to obtain further financing would be limited,
• the available capital or other funding is insufficient to finance the Company’s strategic objectives,
• financing is provided on unfavourable terms (with respect to margins, required security or repayment terms),
• availability of financing is conditional on compliance with certain covenants or on the debt becoming immediately due and payable if such covenants are breached,
• the financing programme is not well adjusted to the requirements of the investment programme or affords only low efficiency of application of the available funds.
To mitigate the potential negative effects of these risks, the Company takes the following measures:
• Implementation of a new centralised financing model for the Grupa Azoty Group, recommended by its adviser (KPMG) and based on the Long-Term Plan for the Group prepared in 2014, to:
  • ensure full consistency and uniformity of its key debt ratios and other financing covenants, which are now adapted to the Long-Term Plan and minimise the risk of default/non-compliance,
  • extend the period of confirmed availability of the financing up to 5 to 10 years, adapted to the schedule of the Development Programme and its expected effects,
  • secure uniform and lower funding costs (including margins) paid by the Group,
  • replace security interests over the Group’s assets with surety bonds/guarantees provided by the Key Group Companies,
  • use the financing for general purposes, which allows the Group to flexibly allocate funds to the most efficient projects and to finance day-to-day operational needs,
  • improve creditworthiness based on the Group’s financial standing and strong position,
  • obtain financing from highly-rated commercial banks and multilateral institutions with stable access to capital, whether now or in the future.
• Preparation of the Grupa Azoty Group Long-Term Plan, including the Capex Budget, that is
adapted to the planned EBITDA and ensures servicing and repayment of debt contracted under the central financing model, also taking into account the impact of business cycles.

- Adoption of the “Grupa Azoty Group Financing and Liquidity Management Policy” providing, among other things, for:
  - effective management of finances within the Group,
  - flexible redistribution and allocation of funds within the Group,
  - implementation of effective cash redistribution and allocation tools within the Group (including real cash-pooling),
  - ensuring the Group’s and its companies’ ability to service the debt and optimise the debt service costs.

Risk of fertilizer oversupply, including due to imports of products manufactured from cheaper raw materials

The increasing supply of fertilizers produced with cheap gas and the growing manufacturing capacities in the sector have led to intensified competition in the nitrogen fertilizer markets. In order to strengthen and consolidate the Company’s leadership in the segment, Grupa Azoty has been taking steps to optimise the production costs, broaden the portfolio of products and services offered, and improve customer service.

Measures taken by the Company to strengthen its competitive advantages include:
- implementation of the Company’s updated distribution strategy for 2011-2017,
- implementation of projects designed to improve the efficiency of production processes,
- search for alternative sources of natural gas supplies,
- strengthening the Company’s market position through acquisitions and placement of new products in the market,
- taking active part in the process of consolidation of the chemical industry,
- initiation of anti-dumping proceedings,
- active participation in the work of Fertilizers Europe,
- cooperation with universities and research institutes,
- supporting agricultural producers by providing them with access to state-of-the-art fertilizing and production solutions.

Risk of major industrial accidents or technical failures disrupting the continuity of processes and operation of key production units

Given the amount of dangerous substances stored at the plant and the number of operations such as loading/unloading as well as ongoing production processes, the Company is classified as a plant with a high risk of a major industrial accident or a technical failure understood as damage to technical equipment.

Accidents involving hazardous substances may cause:
- fire and/or explosion,
- contamination of natural environment,
- accidents at work.

Such failures usually result in a temporary shut-down of the production unit, and, in consequence, production losses.

Operational failures may be caused by:
- improper handling, use, or maintenance of unit,
- defective operation of protection systems,
- faulty design,
- hidden faults in workmanship or materials used,
- human error,
- lack of access to energy carriers, feedstock, etc.,
- natural disasters.

For a number of years, the Company has been taking steps to minimise the risk of failure. These steps comply with the provisions of Integrated Management System, including occupational health and safety management, as well as quality and environment management.

The following measures have been taken to prevent failure:
- technological measures (modern process management systems, I&C systems used to control relevant safety and environmental parameters, alarms in the case of exceeding the maximum values, and process interlocks in case critical values are reached),
- technical measures (emergency containers, fire safety units, etc.).
ongoing inspection of processes and technical condition of the units,
regular maintenance shut-downs to maintain the units in good operating condition,
procedural measures (responsibility for unit operation, health and safety rules described in relevant job guidelines, process manuals, regulations, and other documents),
regular health and safety trainings for the personnel, including also third-party employees performing work at the plant,
identification and assessment of hazards (health and safety reports reviewed on a regular basis, technical risk analyses),
regular health and safety inspections (fire & technology committee and subcommittees, technical safety committee, explosion risk committee, and other),
analysis of actual failures and taking preventive measures to minimise the risk of failure in the future.

In the process of designing, construction and operation of the unit, the Company takes into account safety requirements, applies the most reliable protection measures and the best available technology. The schedule of maintenance works and investments for a given year includes projects designed to enhance operational safety. The Company maintains resources available for immediate deployment in case of emergency, including the Company Fire Brigade and Departmental Emergency Response Teams. As part of the preventive initiatives, the Company holds practical exercises at the plant, in accordance with Rescue Operation Plan.

Risk associated with new legal requirements relating to production processes, including environmental regulations
- Risk associated with the implementation of the Industrial Emissions Directive (IED)
  Following the implementation of the Industrial Emissions Directive (IED) in January 2014, the Grupa Azoty Group will be required to bring its production facilities to compliance with the new regulations. The Company will have to undertake specific adaptation work, and bear its costs. The work will focus on emissions of NOx, SOx and dust from the EC II CHP plant. The required adaptation projects/work will include adaptation of the CHP plant to the more stringent NOx, SO2 and dust emission standards stipulated in the Industrial Emissions Directive (IED).
  To ensure that there is sufficient time for taking appropriate steps to adapt the Company’s facilities to the changing regulations, the Company continuously monitors all planned and implemented changes in the legal environment which could affect the Company’s operations. Investments necessary in the light of the new regulations are provided for in the Company’s investment plans.
- Risk associated with greenhouse gas emissions:
  In the course of its production processes, the Company emits pollutants and greenhouse gases into the air. Changes in the legal requirements concerning greenhouse gas emissions generate the risk of the Company having to take adaptive steps and incur additional cost. The regulations are related to the European Union’s emissions trading scheme (EU ETS). Directive 2009/29/EC extended the scope of the EU ETS to cover selected types businesses, including the chemical industry, in the third trading period from 2013 to 2020. In the case of the Company, apart from the CHP Plant, this mainly applies to the production units manufacturing nitric acid, ammonia and bulk organic chemicals by way of cracking, reforming, partial or complete oxygenation and similar processes with a daily production capacity in excess of 100 Mg. The ETS III system is based on the allocation of free greenhouse gas emission allowances for emitting installations and, if free allowances are not sufficient, on the purchase thereof in an auction-based system. Each year, the number of the allowances allotted decreases by several percent. If the actual CO2 emissions are not covered by the free allowances, the Company may need to incur additional cost of to reduce the emissions of nitrous oxide and carbon dioxide. The volume of carbon dioxide emissions is related to the energy intensity of production processes. It should be borne in mind that stronger economic recovery may drive up the prices of emission allowances, now low in the face of the economic stagnation across the EU. In order to mitigate this risk, the Company has been taking steps designed to reduce the energy intensity of production processes, and thus reduce greenhouse gas emissions.
- Risk associated with the construction of new units:
  The Minister of Environment’s Regulation of August 24th 2012 concerning the concentration of certain substances in the air defines environmental standards for particulate matter PM 2.5 (0–2.5 µm fraction), for which the permitted average annual concentrations are:
- 26 µg/m³ in 2013 and 2014,
- 25 µg/m³ from 2015, and
- 20 µg/m³ from 2020.

Tests run by the Provincial Environmental Protection Inspector revealed that the permitted levels of PM 2.5 emissions was exceeded in the Kraków Province. The programme for improving air quality in the Kraków Province having been announced, it will be necessary to initiate dust compensating procedure if new units are built. Pursuant to Art. 225.2, the total reduction of amount of dust emitted to the air from other units should be by at least 30% higher than the amount of dust allowed to be emitted to the air from a new unit.

In order to meet the legal requirements, highly efficient dust removal equipment will need to be mounted on new units or the existing equipment will have to replaced.

**Risk relating to the management of operation of production assets**

A potential risk exists that production capacities of key units are reduced below values provided for in production plans if a maintenance shut-down protracts or an unscheduled maintenance shut-down is necessary as a result of improper management of operating processes or of irregularities in those processes. This may lead to interruptions in production processes, which might in turn adversely affect output volumes.

If such risk materialises, the Company’s revenues and profits may be affected, and the Company may have to incur additional spending on repair and overhauls.

The Company has been taking steps designed to ensure proper and efficient operation of production assets and to continuously perfect the quality and organisation of production processes. All activities in this area are coordinated by the Corporate Production and Safety Department, with assets operation processes managed directly at production units, where the unit’s Head of Production is responsible for the processes and supervises both operation and technical maintenance of the facilities.

The management of the risk relating to the operation of production assets involves the monitoring of the condition of technical facilities and initiating necessary investments, but also perfecting procedures and developing qualifications of employees involved in operation and technical maintenance of the facilities.

The Company also monitors, on an ongoing basis, the efficiency of operation processes and takes steps to enhance the systems used to support the management of operating processes.

For the purposes of technical risk assessment, the Company has developed a method based on Technical Risk Assessment Sheets, Technical Risk Maps for key risks and additional Risk Analyses performed using the FMEA methodology for technological facilities and equipment where threats have been identified of key risk occurrence. These tools enable the implementation of effective management of technical risk.

In 2014, the Company ran assessments and analyses of technical risk for the critical facilities selected from among strategic facilities based on the criteria defined in the implemented Risk Analysis Guideline.

The Company’s “List of Risks Additionally Supervised by Production Assets Operation Supervisory Office” and the “RISK MAP” enable additional overall supervision of operating facilities prioritised for technical risk monitoring, that is facilities where actual occurrence of the risk triggers severe consequences and is highly probable.

Based on the analysis performed, the amount and type of plant and equipment (plant and equipment groups according to SAP/PM) was identified which during the 12 months subsequent to the analysis, that is in the period Q4 2014–Q3 2015, poses the highest threat of disruption to the continuity of production processes.

The criticality analyses performed for individual plant groups in recent years have indicated that the highest risk relates to the operation of plant and equipment groups defined as ‘machinery’, as well as of control (DCS) and safety systems.

The work on implementation of Company-wide systemic criticality assessment procedures for plant and equipment began in 2014 and will be continued as part of the “Strategy of Technical Maintenance and Management of Asset Life Cycles at Grupa Azoty”.

**Risk related to availability of natural gas**

The cost of natural gas is one of the key components of production costs. In its search for alternative and competitive sources of gas, the Company seeks to diversify both the geographical regions and the suppliers of its gas imports, and reports on these efforts in its press releases and current reports. Negotiations with alternative gas suppliers are conducted at the Group level, which allows the Group to leverage its stronger bargaining position. Nearly half of total gas requirement is
satisfied from local (Polish) sources. The Company takes steps to satisfy its overall gas demand through a combination of a long-term contract with its strategic supplier (PGNiG), annual or quarterly contracts, and transactions on the energy exchange to meet its short-term demand. The steps taken to manage, in a comprehensive manner, all gas sources and balance supplies between the individual Group companies will bring additional cost savings. The Company also focuses on lowering its gas consumption costs by implementing projects designed to reduce gas consumption.

The gas interconnector and gas storage facility extension projects, currently being implemented in Poland, and the planned launch of the LNG terminal will minimise the risk related to availability of natural gas. Currently, a significant portion of the gas purchased by the Group is priced based on gas prices quoted on Western European exchanges. Following the planned withdrawal of tariffs for industrial customers, all gas purchases will be made at prices paid by our competitors in the European Union.

**Risk of a negative effect of CO₂ trading prices on financial performance**

The Company is engaged in operations that produce emissions of greenhouse gases to the atmosphere and to this extent is subject to the provisions of the Act on the System of Managing Emissions of Greenhouse Gases and Other Substances and the Act on Trading in Greenhouse Gas Emission Allowances. The risk of a deficit of emission allowances may result from a potential increase in the prices of EUA allowances, assuming that the European Union and other global economies continue their policies to reduce greenhouse gas emissions.

The Company implements the necessary organisational and technical measures that enable it to fulfil the requirements on monitoring and verification of emission parameters for control/inspection purposes, effectively manage the allocated allowances, and implement relevant procedures for allowance purchases.

The Company has in place a monitoring system for emissions covered by the EU ETS. It also performs ongoing balancing of greenhouse gas emissions.

The Company monitors on an ongoing basis its actual emissions and the market prices of emission allowances and takes appropriate steps in response to their fluctuations.

The Company may be forced to incur higher-than-expected costs if it reports a deficit in emission allowances as at the end of the year and faces an increased demand for EUAs on the market.

The Company mitigates the risk of an adverse effect of CO₂ trading prices through rolling purchases of emission allowances on the SPOT market and through purchases of emission allowances in the form of financial derivatives with delivery in a future period when they should be redeemed in accordance with the then-current Purchase Strategy.

The CO₂ certificates under Phase III of the EU ETS have been allocated to the Company, and the timely allocation of further certificates is expected in line with the allocation plan for the next trading periods. In addition, the Company files audit reports in a timely manner and redeems allowances used for a given year (i.e. by April 30th of the following year).

The Company effectively implements its strategy of rolling purchases of emission allowances, which is designed to ensure full coverage of any deficit of emission allowances that should be allocated for a given year and subsequently redeemed, with exercise prices not higher than the prices projected in the Group’s Long-Term Plan.

The Emissions Trading System (ETS) Committee has also been formed and includes representatives of all Leading Companies, whose main objective is to recommend to the Management Board, and subsequently implement, the Emissions Trading Strategy binding for all Group companies.

The tasks of the ETS Committee include:
- monitoring of the current and planned greenhouse gas emissions at the Grupa Azoty Group,
- analysis of the current situation on the Emissions Trading market,
- analysis of macroeconomic conditions and preparation of market forecasts,
- determination and coordination of budgets, price limits and instruments for the purchase emission to cover the deficit, to be used to implement the Group’s Emissions Trading Strategy,
- assessment of the Strategy implementation and recommendation of corrective measures, if any.

**Currency risk**

Both the Company and the entire Group are engaged in export sales and purchases of production feedstock, with payments made in foreign currencies (predominantly in the euro and the US dollar). As a result, the Company is exposed to foreign exchange risk which may, in particular, lead to a decline in revenue or an increase in the cost of supplies expressed in the Polish złoty, caused by adverse changes in currency exchange rates.
In 2014, given the slow pace of eurozone’s recovery from recession and deflation, the escalation of the Russia-Ukraine crisis and the slowdown of the Polish economy, with the US economy continuing to demonstrate strong GDP growth, the euro began its decline against the US dollar, which was followed by a significant weakening of the Polish currency against the US dollar and limited depreciation of the Polish złoty against the euro. These developments suggest that increased volatility of currency exchange rates can be expected in 2015. With ECB’s quantitative easing policy in place, the Polish złoty can be expected to gradually strengthen against the euro, though PLN’s further limited decline against the US dollar in the future.

The Company has a positive exposure to the euro and the US dollar which is hedged based on ongoing monitoring of movements in the euro and US dollar exchange rates. The Group companies hedge their currency exposures using currency forwards and natural hedging. The Company has also applied the Policy of Financial Risk Management (currency risk and interest rate risk) which provides for:

- centralised supervision over the financial risk management process,
- monitoring of the Group’s consolidated currency exposure,
- determination of the optimal hedging strategy at the Group level,
- Group-wide uniform currency risk management rules,
- uniform catalogue of acceptable and applied hedging instruments,
- consistent hedge limits and time horizons, determined based on an analysis of the planned currency exposures of the Group and its companies and an analysis of the value at risk (VaR).

In connection with the process of implementing the new centralised financing model, Grupa Azoty intends to extend its hedge time horizon by using long-term currency hedging in the form of a euro-denominated facility for a part of its long-term financing.

The Risk Committee operates both at the Company and the Group. The Committee analyses and determines the consolidated currency exposure of the Group and its companies and recommends target levels and horizons of hedges, type of currency instruments and exchange rates for hedge transactions. Hedging transactions are executed by those Group companies in which the exposure actually occurs.

The applied methods enable the Group to limit the existing risk by using selected hedging instruments and strategies, based on long-term and one-year currency exposure plans and their updates to account for quarterly operational plans and short-term projection of currency flows and currency expenditures, and based on the transactions already registered in the financial and accounting system; however, these methods do not eliminate that risk completely. In addition, currency risk may affect the domestic nitrogen fertilizer market in the context of bilateral trade with other EU countries. Strong fluctuations in exchange rates may affect the Company’s business, financial standing or performance.

### 6.2. The Company’s significant external and internal growth factors

#### 6.2.1. External factors

According to estimates of the International Monetary Fund (IMF), the global economy’s growth rate in 2014 did not change significantly year on year, and remained at approximately 3.3%. According to the IMF, the economy is expected to accelerate in 2015-2016: the IMF forecasts the global GDP growth at 3.5% in 2015 and at 3.7% in 2016. In the coming years, a slight economic growth is also expected in Europe. According to the European Commission’s estimates of October 2014, the EU’s GDP growth in 2014 was 1.4%, i.e. similar to the previous year. Continued growth by approximately 1.5% is expected also in 2015 and 2016. According to IMF estimates, the Polish economy is also expected to have recovered, following the slowdown in 2013. In 2014, the GDP growth for Poland was estimated at approximately 3.2%, and it is expected to increase to ca. 3.5% in 2015 and 3.7% in 2016.

The growth of the chemical industry strongly depends on changes in the global economy. According to estimates of the American Chemical Council (ACC), the aggregate output of the chemical industry in Western Europe grew by 1.4%, while in Central and Eastern Europe it grew by 2.6%. ACC projects that in 2015-2019 the chemical industry’s production in Western Europe will be growing at 1.8-2.1%, and in Central and Eastern Europe the growth rate will be at 2.6-4.5%, with the global market’s CAGR of 3.5-4.0%. According to CEFIC, the estimated production growth in the EU chemical industry in 2015 will be approximately 1%. The sector’s growth in the region can be adversely affected by higher production costs and the growing competition on the global markets, including competitive pressures from Asian and American manufacturers.
Market opportunities

- Use of EU direct subsidies and other funds supporting agriculture in the EU,
- Poland is one of the least saturated market in the region in terms of fertilizer consumption,
- Automotive and home appliance industries show signs of steady increase in demand for plastics; however, the growth varies across geographical region:
  - The condition of the polyamide market strongly depends on the level of consumption in the automotive industry (strong volatility and varying performance of the automotive market across regions and brands, noticeable recovery and upbeat forecasts for the coming years),
  - The number of new car registrations in the European Union in the January–October 2014 reached 10.6 million - up by 6.1% year on year,
- Low crude prices translate into lower fuel prices, which may have a positive effect on the EU’s economic growth,
- Structural changes on the Polish gas market are support convergence of gas prices on the domestic market with prices at Western European hubs.
- Falling prices of petrochemical feedstock.

Threats

- Lingering economic slowdown,
- Escalation of the conflict between Russia and Ukraine,
- EU’s higher imports of nitrogen fertilizers from regions with access to cheaper feedstock,
- New urea production capacities in Asia, Middle East, and North Africa,
- New caprolactam and polyamide production capacities in China.

6.2.2. Internal factors

In line with the Strategy until 2020, the main objective of the Company’s development initiatives is to improve its competitive position and reduce exposure to negative macroeconomic factors, such as growing costs of energy and environmental protection.

In the Fertilizers segment, the key initiatives will focus on the optimisation of production structure, and on leveraging the segment’s synergies with caprolactam production. Both the Company and the Group plan to increase the output of granulated fertilizers, reduce production costs, and improve the quality of fertilizers.

In the Plastics segment, the key initiatives will be aimed at increasing the output of polyamides, balancing the production capacities for caprolactam and polyamides, and reducing caprolactam production costs. The main goal is to utilise the caprolactam output of the entire Group in a more efficient manner, to increase sales of caprolactam, and to reduce costs of its production.

In the coming years, the focus will be on upgrading the Group’s power assets and bringing them into compliance with the requirements of the IED Directive.

Strengths

- Due to the nature of the offering, the Company may sell its products in segments with different cycles (fertilizers – seasonal cycles, plastics – economic cycles),
- Diversification of gas supplies, Company’s strong purchasing leverage on the gas market attributed to its position within the Group,
- Stronger bargaining power in joint purchases of petrochemical feedstock, energy, and coal,
- Complementary range of mineral fertilizers,
- Integration within the plastics chain,
- Strong position of the Company on the domestic and European markets,
- Access to the large and promising agricultural market of Poland, through distribution network, proximity to customers, and centralised sales and logistics strategy.

Weaknesses

- Geopolitical situation of Poland, resulting in relatively high costs of energy, including cost of gas.
- Products are manufactured within the processing chain, and are subject to pressures from both upstream and downstream segments, with limited possibility of earning large margins.
- Relatively low scale of production compared with the key global competitors.

6.3. Growth directions
Future growth directions for the Company are identified in the Grupa Azoty Group Strategy for 2013−2020, which sets out a vision of how the Company and its Group want to grow their businesses and create value in the years ahead, as well as in the Operationalisation of the Strategy for 2014−2020, published on August 14th 2014.

By 2020, Grupa Azoty will have five value-creating business segments (Fertilizers, Plastics, Oxoplast, Pigments and Melamine) and the supporting segment, Energy (for the Group’s own needs), with potential for entry into new segments, including new plastics and professional power generation.

The Strategy will be implemented in the following three strategic areas:

- Organic growth, with the Group’s capital expenditure estimated at PLN 6-7bn over the seven years between 2014 and 2020;
- Operational excellence programme, with the annual effect on the Grupa Azoty Group’s EBIT expected at PLN 300m;
- Efficiency enhancement through mergers and acquisitions (M&A).

The Operationalisation of the Grupa Azoty Group’s Strategy lists 38 strategic investment and/or marketing projects designed to build the value of the individual segments or of the entire Group (if the project involves more than one segment or is implemented at more than one location, then it is deemed a corporate project). The operationalisation also defines directions of activity in the M&A area.

### 6.4. Company’s growth prospects and market strategy

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

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

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

#### Mineral fertilizers

In the period covered by the strategy, one of the focal areas of the Company’s and the Group’s operations will be the mineral fertilizers sector.

The Company intends to increase its production capacity for mechanically granulated nitrogen fertilizers and upgrade its production units to further reduce production costs.

#### 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.

The Company and the Group continue to increase the scale of production of polyamides and will fully balance the production capacities for caprolactam and polyamides. There are also plans to increase the scale of polyamide composite production.

#### Energy

In 2014−2020, the existing coal-powered co-generation facility will continue as the main source of heat and electricity for the Company’s production plant.

The scale and scope of upgrades will be adapted to the changing legal requirements, particularly the environmental regulations.

The adopted product and market strategy will be supported by research and development activities.
carried out in partnership with third parties and using own R&D capacity of the Company’s Chemical Technology Research and Development 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. One of the key objectives of the current activities is to increase product diversification, in particular in speciality chemicals.

7. Qualified auditor

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

<table>
<thead>
<tr>
<th>Item</th>
<th>KPMG Audyt Sp. z o.o.</th>
<th>KPMG Audyt Sp. z o.o.</th>
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<tr>
<td>Audit of the full-year separate and consolidated financial statements of the Parent and the Group</td>
<td>225</td>
<td>235</td>
</tr>
<tr>
<td>Review of the half-year separate and consolidated financial statements of the Parent and the Group</td>
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<td>105</td>
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<td>Other services</td>
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<td></td>
<td><strong>399</strong></td>
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8. Litigation

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

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

On June 2nd 2014, under proceedings concerning reverse transfer of ownership of shares in Grupa Azoty ATT Polymers GmbH, the International Chamber of Commerce in Paris issued a ruling in which it upheld the validity of the agreement for the purchase of shares in Grupa Azoty ATT Polymers GmbH by the Company, dated November 18th 2009. Additionally, the arbitration tribunal determined that the share sale agreement satisfied all necessary formal and substantial requirements, and in particular that the seller’s resolution dated December 23rd 2009, being one of the preconditions for closing the transaction, was valid. The tribunal also ruled that the Company was under no obligation to return dividend. The ruling is final and cannot be subject to any ordinary legal remedies.
9. Governing bodies

9.1. Remuneration and additional benefits

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

<table>
<thead>
<tr>
<th>Name</th>
<th>Remuneration paid</th>
<th>Remuneration due</th>
<th>Total</th>
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</thead>
<tbody>
<tr>
<td>Monika Kacprzyk-Wojdyga</td>
<td>192</td>
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</tr>
<tr>
<td>Ewa Lis</td>
<td>168</td>
<td>-</td>
<td>168</td>
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<tr>
<td>Robert Kapka(*)</td>
<td>296</td>
<td>-</td>
<td>296</td>
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<tr>
<td>Tomasz Klikowicz(**)</td>
<td>218</td>
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<td>Artur Kucharski</td>
<td>144</td>
<td>-</td>
<td>144</td>
</tr>
<tr>
<td>Marek Mroczkowski</td>
<td>144</td>
<td>-</td>
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<tr>
<td>Jacek Obłękowski</td>
<td>168</td>
<td>-</td>
<td>168</td>
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<tr>
<td>Zbigniew Paprocki(***))</td>
<td>277</td>
<td>-</td>
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<tr>
<td>Ryszard Trepczyński</td>
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(*) including remuneration under employment contract with the Parent - PLN 152 thousand,
(**) including remuneration under employment contract with the Parent - PLN 73 thousand,
(***) including remuneration under employment contract with the Parent - PLN 133 thousand,

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

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<thead>
<tr>
<th>Name</th>
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<th>Remuneration due</th>
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<td>Paweł Jarczewski</td>
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<td>-</td>
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<tr>
<td>Andrzej Skolmowski</td>
<td>396</td>
<td>420</td>
<td>-</td>
<td>816</td>
</tr>
<tr>
<td>Witold Szczypiński</td>
<td>743</td>
<td>420</td>
<td>-</td>
<td>1,163</td>
</tr>
<tr>
<td>Marek Kapłucha</td>
<td>843</td>
<td>420</td>
<td>-</td>
<td>1,263</td>
</tr>
<tr>
<td>Marian Rybak</td>
<td>60</td>
<td>223</td>
<td>-</td>
<td>283</td>
</tr>
<tr>
<td>Krzysztof Jałosiński</td>
<td>180</td>
<td>255</td>
<td>-</td>
<td>435</td>
</tr>
<tr>
<td>Artur Kopeć</td>
<td>518</td>
<td>270</td>
<td>-</td>
<td>788</td>
</tr>
<tr>
<td>Jerzy Marciniak</td>
<td>-</td>
<td>-</td>
<td>480</td>
<td>480</td>
</tr>
<tr>
<td></td>
<td>3,708</td>
<td>2,488</td>
<td>480</td>
<td>6,676</td>
</tr>
</tbody>
</table>

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

<table>
<thead>
<tr>
<th>Name</th>
<th>Remuneration paid</th>
<th>Remuneration due</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Andrzej Skolmowski</td>
<td>446</td>
<td>-</td>
<td>446</td>
</tr>
<tr>
<td>Witold Szczypiński</td>
<td>114</td>
<td>-</td>
<td>114</td>
</tr>
<tr>
<td>Marian Rybak</td>
<td>780</td>
<td>-</td>
<td>780</td>
</tr>
<tr>
<td>Krzysztof Jałosiński</td>
<td>660</td>
<td>-</td>
<td>660</td>
</tr>
<tr>
<td></td>
<td>2,000</td>
<td>-</td>
<td>2,000</td>
</tr>
</tbody>
</table>
9.2. Agreements executed between the Company and management personnel providing for compensation in the event of their resignation or dismissal from the position held without valid cause or if their dismissal or redundancy occurs as a result of a merger

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

Members of the Management Board are not entitled to severance if their removal from the Management Board results from justified termination of the employment contract without notice for reasons attributable to the employee, pursuant to Art. 52.1 of the Polish Labour Code.

Furthermore, under the relevant non-competition agreements, upon termination of employment members of the Management Board are entitled to compensation amounting to 100% of salary provided for in the employment contract, paid out over a period of six/twelve months. This right expires on breach of the non-competition agreement.

The above is not applicable to Artur Kopeć, member of the Management Board elected by employees, who is also employed at the Company under employment contract. Mr Artur Kopeć has executed a non-competition agreement only for the duration of the employment term.

10. Statement of compliance with corporate governance rules


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


Since 2009, the Company has been a constituent of the RESPECT index managed by the Warsaw Stock Exchange. The Company has been appreciated for its engagement in applying corporate social responsibility principles and having highest standards in corporate governance, corporate disclosure discipline, and investor relations, as well as environmental, social, and employee matters.

On December 22nd 2014, the Company was for the eighth time awarded a certificate confirming its membership in the elite group of 24 companies listed in the RESPECT Index.

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

Since the floatation of its shares on the WSE in 2008, the Company’s aim has been to observe best corporate governance practices, which was expressed in the declaration of the Company’s Management Board contained in the 2008 IPO Prospectus and the 2011 Issue Prospectus. Following amendments to the document “Best Practices for Companies Listed on the WSE” (the “Document”), effected by way of Resolution No. 19/1307/2012 of November 21st 2012 of the WSE Supervisory Board, the Company’s Management Board adopted the updated Document with effect as of January 1st 2013, with the following exceptions:

- Principle 9a in part II of the Document: “the Company maintains a corporate website and publishes information, other than required by law, as follows:

9a) minutes from General Meetings in audio or video format”.

Explanation: In the Company’s view, the way General Meetings have been documented and carried out to date ensures transparency and safeguards the rights of all shareholders. Further, information
on passed resolutions is published by the Company in the form of current reports, also on its website. Therefore investors are able to review the matters discussed at General Meetings. The Company may apply this rule in the future.

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

Explanation: The Company’s Articles of Association do not provide for an option for shareholders to participate in General Meetings using electronic communications. The large number of shareholders may cause difficulties in ensuring seamless, simultaneous and equal participation of all shareholders in General Meetings. Given the high free float, difficulties may also arise in terms of information security. However, the Company may apply this rule in the future.

Incidental violations of the Code of Best Practice for WSE Listed Companies
In 2014, no such events were recorded.

10.3. Internal control and risk management systems

In 2014, the Company continued to implement the risk management system. The “Grupa Azoty Corporate Risk Management Policy” was adopted along with a range of procedures related to risk identification and assessment.

In accordance with the Policy, corporate risk management consists of the following stages:
- risk identification and assessment;
- definition and deployment of risk response measures and incident management plans;
- monitoring and reporting of risk levels;
- use of information on risks in decision-making processes,
- reporting and communication,
- monitoring and evaluation of the risk management system.

A new position of Risk Manager was established at the Company, and the Risk Management Steering Committee was established.

The Company’s risk register is verified periodically. Risk identification is based on the adopted risk model and risk assessment is performed by entities affected by a given risk using a scale of impact and likelihood of occurrence applied in a given year. Risks are prioritised and key risks in a given period are identified.

As a result, a list of key risks is adopted along with the Company’s risk map and register. 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 Company to assess measures taken to mitigate risks in individual processes carried out at the Company.
10.4. Shareholding structure

Shareholding structure as at March 12th 2014 (in accordance with the information provided in the full-year report for 2013)

<table>
<thead>
<tr>
<th>Shareholder</th>
<th>Number of shares</th>
<th>% of share capital</th>
<th>Number of votes</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. with 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 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>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>

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

On June 3rd 2014, the Company’s Management Board received a notification from Aviva Powszechne Towarzystwo Emerytalne Aviva BZ WBK S.A, to the effect that as a result of the sale of the Company’s shares on May 23rd 2014 Aviva Otwarty Fundusz Emerytalny Aviva BZ WBK ("Aviva OFE") decreased its share in the total number of voting rights to below 5%.

Prior to the settlement of the transaction, as at May 27th 2014, Aviva OFE held 4,960,249 shares in the Company, representing 5.00% of its share capital (outstanding shares) and 4,960,249 votes at the General Meeting, i.e. 5.00% of total voting rights.

After the settlement of the transaction, as at May 28th 2014, Aviva OFE held 4,260,249 shares in the Company, representing 4.29% of its share capital (outstanding shares) and 4,260,249 votes at the General Meeting, i.e. 4.29% of total voting rights.

Shareholding structure as at June 3rd 2014

<table>
<thead>
<tr>
<th>Shareholder</th>
<th>Number of shares</th>
<th>% of share capital</th>
<th>Number of votes</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. with 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 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>European Bank for Reconstruction and Development</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>26,971,967</td>
<td>27.19</td>
<td>26,971,967</td>
<td>27.19</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 11th 2014 the Company’s Management Board received a notification from Norica Holding S.à.r.l. of Luxembourg (‘Norica’), acting in its own name and on behalf of:
- 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’), and
- Viatcheslav Kantor, a citizen of Israel.

In the notification, the Company was informed that a series of transactions (the “Transaction”) was executed on June 6th and June 9th 2014, both in and outside of the regulated market, consisting in
the purchase by Norica of 2,755,606 shares in the Company, representing approximately 2.7778% of the Company’s total shares and carrying 2,755,606 voting rights, i.e. approximately 2.7778% of total voting rights at the Company’s General Meeting. As a result, Norica increased its shareholding and voting rights in the Company to above 20% of total voting rights at the Company’s General Meeting. Prior to the Transaction, Norica held 17,086,094 shares in the Company, representing approximately 17.225% of the Company’s total share and carrying 17,086,094 voting rights at the Company’s General Meeting, i.e. approximately 17.225% of total voting rights at the Company’s General Meeting. Following the Transaction, Norica held 19,841,700 shares in the Company, representing approximately 20.0026% of the Company’s total shares and carrying 19,841,700 voting rights at the Company’s General Meeting, i.e. approximately 20.0026% of total voting rights at the Company’s General Meeting. Also, as a result of the Transaction:

- TrustService, Norica’s parent, exceeded (indirectly through the subsidiary) the 20% threshold of total voting rights at the Company’s General Meeting, and held 19,841,700 shares in the Company, representing approximately 20.0026% of the Company’s share capital and carrying 19,841,700 voting rights, or approximately 20.0026% of total voting rights at the Company’s General Meeting.
- Acron, TrustService’s parent, has exceeded (indirectly through Norica) the 20% threshold of total voting rights at the Parent’s General Meeting, and held 19,841,700 shares in the Company, representing approximately 20.0026% of its share capital and carrying 19,841,700 voting rights (approximately 20.0026% of total voting rights) at the Company’s General Meeting.
- Subero, Acron’s parent, has exceeded (indirectly through Norica) the 20% threshold of total voting rights at the Company’s General Meeting, and held 19,841,700 shares in the Company, representing approximately 20.0026% of its share capital and carrying 19,841,700 voting rights (approximately 20.0026% of total voting rights) at the Company’s General Meeting.
- Mr Wiaczesław Kantor, Subero’s parent, exceeded (indirectly through Norica) the 20% threshold of total voting rights at the Company’s General Meeting, and held 19,841,700 shares in the Company, representing approximately 20.0026% of its share capital and carrying 19,841,700 voting rights (approximately 20.0026% of total voting rights) at the Company’s General Meeting.

Prior to the Transaction:

- TrustService, Norica’s parent, held (indirectly through Norica) 17,086,094 shares in the Company, representing approximately 17.225% of the Company’s share capital and carrying 17,086,094 voting rights, or approximately 17.225% of total voting rights at the Company’s General Meeting.
- Acron, TrustService’s parent, held (indirectly through Norica) 17,086,094 shares in the Company, representing approximately 17.225% of the Company’s share capital and carrying 17,086,094 voting rights, or approximately 17.225% of total voting rights at the Company’s General Meeting.
- Subero, Acron’s parent, held (indirectly through Norica) 17,086,094 shares in the Company, representing approximately 17.225% of the Company’s share capital and carrying 17,086,094 voting rights, or approximately 17.225% of total voting rights at the Company’s General Meeting.
- Mr Wiaczesław Kantor, Subero’s parent, held (indirectly through Norica) 17,086,094 shares in the Company, representing approximately 17.225% of the Company’s share capital and carrying 17,086,094 voting rights, or approximately 17.225% of total voting rights at the Company’s General Meeting.

Mr Wiaczesław Kantor also notified the Company that aside from Norica none of his subsidiaries held any Company shares.
Subero notified the Company that aside from Norica none of its subsidiaries held any Company shares.
Acron notified the Company that aside from Norica none of its subsidiaries held any Company shares.
TrustService notified the Company that aside from Norica none of its subsidiaries held any Company shares.
Norica notified the Company that none of its subsidiaries held any Company shares.
Each of Mr Wiaczesław Kantor, Subero, Norica, Acron and TrustService separately informed the Parent that there were no persons such as those referred to in Art. 87.1.3.c of the Public Offering Act.
They also communicated that during the 12 months from the notification date they may from time to time, directly or indirectly, acquire or sell Company shares.
Director’s Report on the Operations of Grupa Azoty S.A.
for the 12 months ended December 31st 2014
(all figures in PLN ‘000 unless indicated otherwise)
### Shareholding structure as at June 11th 2014

<table>
<thead>
<tr>
<th>Shareholder</th>
<th>Number of shares</th>
<th>% of share capital</th>
<th>Number of votes</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. with</td>
<td>19,841,700</td>
<td>20.00</td>
<td>19,841,700</td>
<td>20.00</td>
</tr>
<tr>
<td>Cliffstone 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 OFE</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>5,700,000</td>
<td>5.75</td>
<td>5,700,000</td>
<td>5.75</td>
</tr>
<tr>
<td>EBRD</td>
<td>22,346,361</td>
<td>22.53</td>
<td>22,346,361</td>
<td>22.53</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 October 31st 2014, the Management Board of the Company received a notification from Rainbee Holdings Limited of Nicosia, Cyprus, provided under Art. 69.1.1 of the Act on Public Offering, Conditions Governing the Introduction of Financial Instruments to Organised Trading, and Public Companies, dated July 29th 2005.

According to the notification, following the in-kind contributions of October 29th 2014 and October 31st 2014 of Company shares to cover the increased share capital of Rainbee Holdings Limited, made by its sole shareholder, Norica Holding S.à r.l., controlling 100% of the share capital of Rainbee Holdings Limited, Rainbee Holdings Limited: (i) on October 29th 2014 acquired 100 Company shares, representing approximately 0.0001% of the Company’s share capital and carrying 100 voting rights (approximately 0.0001% of total voting rights) at the Company’s General Meeting, (ii) on October 31st 2014 acquired 9,820,252 Company shares, representing approximately 9.8999% of the Company’s share capital and carrying 9,820,252 voting rights (approximately 9.8999% of total voting rights) at the Company’s General Meeting, and as a result of the transactions exceeded the threshold of 5% of total voting rights at the Company’s General Meeting.

Prior to the transaction, Rainbee Holdings Limited did not hold, whether directly or indirectly, any Company shares.

Following the transaction, Rainbee Holdings Limited held directly 9,820,352 Company shares, representing approximately 9.8999% of the Company’s share capital and carrying 9,820,352 voting rights (approximately 9.8999% of total voting rights) at the Company’s General Meeting.

Rainbee Holdings Limited notified the Company that none of its subsidiaries held any Company shares.

Rainbee Holdings Limited also notified the Parent that there were no persons such as those referred to in Art. 87.1.3.c of the Public Offering Act.

Also, following the transaction:

Noricia Holding S.à r.l. holds, directly and through its subsidiary, Rainbee Holdings Limited, 19,841,700 Company shares, representing approximately 20.0026% of the Company’s share capital and carrying 19,841,700 voting rights (approximately 20.0026% of total voting rights) at the Company’s General Meeting, of which:

a) Norica Holding S.à r.l. holds directly 10,021,348 Company shares, representing approximately 10.1026% of the Company’s share capital and carrying 10,021,348 voting rights (approximately 10.1026% of total voting rights) at the Company’s General Meeting;

b) Norica Holding S.à r.l. holds indirectly, through its subsidiary, Rainbee Holdings Limited, 9,820,352 Company shares, representing approximately 9.8999% of the Company’s share capital and carrying 9,820,352 voting rights (approximately 9.8999% of total voting rights) at the Company’s General Meeting.
Shareholding structure as at October 31st 2014

<table>
<thead>
<tr>
<th>Shareholder</th>
<th>Number of shares</th>
<th>% of share capital</th>
<th>Number of votes</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>10,021,348</td>
<td>10.10</td>
<td>10,021,348</td>
<td>10.10</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>Rainbee Holdings Limited)</td>
<td>9,820,352</td>
<td>9.90</td>
<td>9,820,352</td>
<td>9.90</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>EBRD</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>22,346,361</td>
<td>22.53</td>
<td>22,346,361</td>
<td>22.53</td>
</tr>
<tr>
<td></td>
<td>99,195,484</td>
<td>100.00</td>
<td>99,195,484</td>
<td>100.00</td>
</tr>
</tbody>
</table>

*) A direct subsidiary of Norica Holding S.à r.l.

In the period from October 31st 2014 to the date of this report, the Company has not been notified of any changes in the large holdings of its shares.

10.5. Special control powers of security holders

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

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

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

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

10.6. Restrictions on voting rights

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

On March 15th 2013, the Company’s Extraordinary General Meeting passed Resolution No. 9 to amend the Articles of Association by changing the individual rights of certain shareholders by amending Art. 47 to read as follows:

“Art. 47.3. 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. The limitation on the voting rights referred to in the preceding sentence shall not apply to the State Treasury or any of its subsidiaries. For the purposes of this Art. 47.3, the exercise of voting rights by a subsidiary shall be deemed the exercise of voting rights by its parent as defined in the Act on Public Offering, Conditions Governing the Introduction of Financial Instruments to Organised Trading, and Public Companies of July 29th 2005 (the “Public Offering Act”), and the terms “parent” and “subsidiary” shall include any entity whose voting rights attached to shares held, directly or indirectly, in the Company are aggregated with the voting rights of another entity or entities, in accordance with the Public Offering Act, in connection with the holding, disposal or acquisition of major holdings in the
Company. A shareholder whose voting rights are subject to the limitation shall in any case retain the right to cast at least one vote.”

10.7. Restrictions on the transferability of the Company securities

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

10.8. Rules governing appointment and removal of the Company’s management staff; powers of the management staff, including in particular the authority to resolve to issue or buy back shares

Rules governing appointment and removal of the management staff

Management Board

In accordance with Art. 23.1 of the Company’s Articles of Association, the Company’s Management Board consists of no more than seven persons, including President, Vice-Presidents and other Members. The number of Management Board members is defined by the governing body that appoints the Management Board. Members of the Management Board are appointed for a joint three-year term of office.

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

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

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

The Supervisory Board has the capacity to remove and suspend from duties any or all members of the Management Board, for a good reason, and to delegate members of the Supervisory Board, for no longer than three months, to temporarily perform the duties of members of the Management Board who were removed from office, tendered their resignation or for any other reason are unable to perform the duties (Art. 33.1 of the Company’s Articles of Association).

Supervisory Board

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

Members of the Supervisory Board are appointed for a joint three-year term of office.

At least two members of the Supervisory Board should be independent members that meet the independence criteria set out in Annex II to the Commission Recommendation on the role of non-executive or supervisory directors (Art. 35.4 of the Company’s Articles of Association).

The General Meeting appoints the Chairperson of the Supervisory Board.

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

Power to make decisions to issue or buy back shares

Pursuant to Art. 10.1 of the Company’s Articles of Association, the Company’s share capital may be increased by way of a resolution of the General Meeting by issuing new shares or increasing the value of existing shares. Pursuant to Art. 10.3 of the Articles of Association: “3. The Management Board is authorised to increase the Company’s share capital by issuing new shares with a total par value of up to PLN 240,432,915, by way of an increase in the share capital within the limits defined above (“Authorised Share Capital”). An increase in the share capital within the limits of the Authorised Share Capital may be effected only for the purpose and on the terms and conditions stipulated in Art 10.4 4 below. The Management Board’s authorisation to increase the share capital and to issue new shares within the limits of the Authorised Share Capital shall expire within six months from the date of registration of amendments to the Articles of Association stipulating the Authorised Share Capital.
4. Within the limits of the Authorised Share Capital, the Management Board shall be authorised to offer Company shares, with the existing shareholders’ pre-emptive rights waived, only to the shareholders of 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 PULAWY, so that one share in ZA PULAWY shall be deemed a non-cash contribution to cover 2.5 Company shares issued within the limits of the Authorised Share Capital. A Management Board’s resolution to issue shares in exchange for a non-cash contribution in the form of shares in ZA PULAWY shall not require approval by the Supervisory Board.

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

6. Unless stipulated otherwise in Art. 10.7 or in the Commercial Companies Code, the Management Board shall decide on all matters connected with a share capital increase within the limits of the Authorised Share Capital; in particular the Management Board is authorised to:
1) enter into agreements providing for the arrangement and the carrying out of a share issue,
2) adopt resolutions and take other actions regarding conversion of the shares and allotment certificates into book-entry form as well as to enter into agreements with the Polish NDS on the registration of the shares and allotment certificates,
3) adopt resolutions and take other actions regarding the issue of shares by way of a public offering or seeking admission of the shares and allotment certificates to trading on the regulated market, as the case may be.

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

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

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

10.10. Operation of the General Meeting

The General Meeting is convened and prepared in accordance with the Commercial Companies Code, the Company’s Articles of Association and the Rules of Procedure for the General Meeting. The Rules of Procedure for the General Meeting, adopted by way of a resolution of the General Meeting of June 26th 2009, define the rules for holding the meetings. The powers of the General Meeting are defined in the Commercial Companies Code and Art. 51 of the Company’s Articles of Association.

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

Shareholder rights and execution thereof
Shareholder rights are defined in detail in the Code of Commercial Companies, the Act on Trading in Financial Instruments, the Public Offering Act and the Company’s Articles of Association (Art. 14-16 - Shareholder rights and obligations).

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

Management Board
Throughout 2014, there were no changes in the composition of the Company’s Management Board. As at December 31st 2014, the composition of the Management Board of the 9th term of office was as follows:
- Paweł Jarczewski - President of the Management Board,
- Andrzej Skolmowski - Vice-President of the Management Board,
- Witold Szczypiński - Vice-President of the Management Board, Director General,
- Marek Kaplucha - Vice-President of the Management Board,
- Marian Rybak - Vice-President of the Management Board,
- Marian Rybak - Vice-President of the Management Board,
- Krzysztof Jalisinski - Vice-President of the Management Board,
- Artur Kopeć - Member of the Management Board.

At the beginning of April 2014, the Company’s Management Board appointed Mr Witold Szczypiński, Vice-President of the Management Board, to serve as Director General of the Company.

The role of the Director General is to initiate and coordinate activities related to the day-to-day operational management of the Company in cooperation with other Vice-Presidents and the Managing Director. In line with the division of powers in the Management Board, Mr Szczypiński is responsible for managing and coordinating production processes, planning overhauls and maintenance shut-downs, and initiating development and investment projects. He also manages the Company’s core business areas and the support area, supervises the operations of the Plastics Business Segment as well as other organisational units, oversees and coordinates the restructuring processes being implemented at the Company, and approves reports, documents and protocols related to the areas under his supervision.

The composition of the Company’s Management Board and the powers and responsibilities of its members are as follows:
- Paweł Jarczewski - President of the Management Board, responsible for management and HR policy, owner’s supervision, oversight of the Agro Business Centre, information policy, risk management, and coordination of the internal audit function at the Grupa Azoty Group,
- 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, Director General at the Parent, responsible for integration of production processes, plastics and organic synthesis at the Grupa Azoty Group,
- Marek Kaplucha - Vice-President of the Management Board, responsible for supply chain management and strategic feedstock procurement management at the Grupa Azoty Group,
- Marian Rybak - Vice-President of the Management Board, responsible for investments at the Grupa Azoty Group,
- Krzysztof Jalisinski - Vice-President of the Management Board, responsible for strategy and development at the Grupa Azoty Group,
- Artur Kopeć - Member of the Management Board, responsible for social dialogue, technical safety and environmental protection at the Grupa Azoty Group.

The Company’s Management Board operates on the basis of:
- the Commercial Companies Code,
- the Act on Commercialisation and Privatisation of August 30th 1996, as amended,
- the Act on Public Offering, Conditions Governing the Introduction of Financial Instruments to Organised Trading, and Public Companies of July 29th 2005,
the Act on Trading in Financial Instruments of July 29th 2005,
and secondary legislation issued on the basis of the above acts,
the Company’s Articles of Association.
the Rules of Procedure for the Management Board,
other internal regulations effective at the Company.

Events after the end of the reporting period
2014 was the last full financial year of the Management Board’s 9th term of office, as the Company’s Supervisory Board during its meeting held on January 9th 2015 passed a resolution to appoint the Company’s Management Board for the new term of office. The composition of the Management Board of the 10th term of office is as follows:

- Paweł Jarczewski – President of the Management Board,
- Andrzej Skolmowski – Vice-President of the Management Board,
- Witold Szczypiński – Vice-President of the Management Board,
- Marek Kapłucha – Vice-President of the Management Board,
- Marian Rybak – Vice-President of the Management Board,
- Krzysztof Jaliosiński – Vice-President of the Management Board,

The effective date of the Supervisory Board resolutions was February 20th 2015.
The mandate of Artur Kopeć, the Management Board member elected by employees, expired upon commencement of the Board’s new term of office. Thus, the Supervisory Board decided to initiate for electing the Management Board member by the employees for a new joint term of office.
The elections were held in the periods January 27th-February 11th 2015 (1st round) and February 13th-23rd 2015 (2nd round). In the elections, employees elected Mr Artur Kopeć as their candidate and representative on the Management Board.
On February 26th 2015, the Supervisory Board passed a resolution to appoint Mr Kopeć as Member of the Company’s Management Board.

Powers and responsibilities of the Management Board members
The detailed division of powers among members of the Management Board is specified in the Management Board’s Resolution No. 467/IX/2013 of August 20th 2013, as supplemented by the Management Board’s Resolution No. 639/IX/2014 of April 15th 2014 which added a new section concerning the scope of responsibilities of the Company’s Director General assumed by the Vice-President in charge of integration of production processes, plastics and organic synthesis.
Subsequently, by virtue of Resolution No. 735/IX/2014 of September 8th 2014 oversight over the Company’s sponsorship activities was transferred from Management Board Member to Management Board Vice-President responsible for integration of production processes, plastics and organic synthesis.

At its meeting held on March 10th 2015, the Company’s Management Board passed a resolution on the division of powers and responsibilities between the members of the Management Board of the 10th term of office, as specified in the Management Board’s Resolution No. 467/IX/2013 of August 20th 2013, and as later amended by the Management Board’s Resolution No. 639/IX/2014 of April 15th and the Management Board’s Resolution No. 735/IX/2014 of September 8th 2014.

Supervisory Board
In 2014, there were no changes in the composition of the Company’s Supervisory Board.
Composition of the Supervisory Board as at the date of issue of this Report was as follows:

- Monika Kacprzyk-Wojdyga – Chairperson,
- Jacek Oblekowski – Deputy Chairman,
- Ewa Lis – Secretary,
- Robert Kapka – Member,
- Tomasz Klikowicz – Member,
- Artur Kucharski – Member,
- Marek Mroczkowski – Member,
- Zbigniew Paprocki – Member,
- Ryszard Trepczyński – Member.

The Supervisory Board operates on the basis of:

- the Commercial Companies Code of September 15th 2000 (Dz.U. No. 94, item 1037, as amended),
the Act on Commercialisation and Privatisation (…),
the Accountancy Act,
the Company’s Articles of Association (Art. 33),
Rules of Procedure for the Company’s Supervisory Board.

Powers and responsibilities of the Supervisory Board
The powers and responsibilities of the Supervisory Board are defined in Art. 33 of the Company’s Articles of Association.
To streamline its work and improve control of the Company and the Group, on July 4th 2013 the Supervisory Board passed Resolution No. 21/IX/2013 on appointment of the Audit Committee, with the following composition:
• Jacek Oblękowski - Chairperson,
• Tomasz Klikowicz.
• Marek Mroczkowski,

The rules of operation of the Audit Committee are provided for in the Rules for the Audit Committee, drawn up with based on Annex I, sec. 4 (Audit Committee) to the European Council Recommendation of February 15th 2005 on the role of non-executive or supervisory directors of listed companies and on the committees of the (supervisory) board (Official Journal of the European Union L 52/52), and Art. 86 of the Act on Qualified Auditors, Their Self-Government, Entities Qualified to Audit Financial Statements and Public Supervision of May 7th 2009. The Rules were adopted by the Supervisory Board by way of Resolution No. 21/IX/2013 of July 4th 2013. Under the Rules, the main tasks of the Committee are:
• monitoring of the financial reporting process,
• monitoring of the effectiveness of internal control systems,
• monitoring of financial audit,
• monitoring of the independence of the auditor and the entity qualified to audit financial statements,
• monitoring of the audit of separate and consolidated financial statements,
• monitoring of the work of the internal audit team,
• monitoring of the work and reports of the independent statutory auditor,
• analysing selected economic events relevant for the Company’s operations.

Signatures of the Members of the Management Board

Paweł Jarczewski
President of the Management Board

Andrzej Skolmowski
Vice-President of the Management Board

Witold Szczypiński
Vice-President of the Management Board
Director General

Marek Kapłucha
Vice-President of the Management Board

Marian Rybak
Vice-President of the Management Board

Krzysztof Jałosiński
Vice-President of the Management Board

Artur Kopeć
Member of the Management Board

Tarnów, March 10th 2015