



Directors' Report  
on the Operations of the Grupa Azoty Group  
for the 12 months ended  
December 31st 2014

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## 1. General information on the Grupa Azoty Group

### 1.1. Organisational structure

As at December 31st 2014, the Grupa Azoty Group (the "Grupa 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 PUŁAWY),
- 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 SIARKOPOL),
- 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 PUŁAWY 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.

#### Parent

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

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

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

#### Subsidiaries of Grupa Azoty S.A.

##### Grupa Azoty Zakłady Azotowe Puławy Spółka Akcyjna

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

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

##### Grupa Azoty Zakłady Azotowe Kędzierzyn Spółka Akcyjna

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

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

#### **Grupa Azoty Zakłady Chemiczne Police Spółka Akcyjna**

The company was entered into the Register of Entrepreneurs of the National Court Register maintained by the District Court for Szczecin-Centrum, 13th Commercial Division of the National Court Register, under entry No. 0000015501, on May 29th 2001. The company has its registered office in Police, at ul. Kuźnicka 1. Since June 3rd 2013, the company has been trading under its new name Grupa Azoty Zakłady Chemiczne Police Spółka Akcyjna (abbreviated to Grupa Azoty Zakłady Chemiczne Police S.A.).

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

#### **Grupa Azoty ATT Polymers GmbH**

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

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

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

#### **Grupa Azoty Polskie Konsorcjum Chemiczne Spółka z ograniczoną odpowiedzialnością**

The company was entered into the National Court Register under entry No. KRS 0000319998, on December 23rd 2008, by the District Court for the Capital City of Warsaw in Warsaw, 13th Commercial Division of the National Court Register. Currently, its registered office is located in Tarnów, at ul. Kwiatkowskiego 7.

Since February 28th 2013, the company has been trading under its new name Grupa Azoty Polskie Konsorcjum Chemiczne Spółka z ograniczoną odpowiedzialnością (abbreviated to Grupa Azoty Polskie Konsorcjum Chemiczne Sp. z o.o. or Grupa Azoty PKCh Sp. z o.o.).

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

#### **Grupa Azoty Koltar Spółka z ograniczoną odpowiedzialnością**

The company was entered into the National Court Register under entry No. KRS 0000206663, on May 12th 2004, by the District Court for Kraków-Śródmieście in Kraków, 12th Commercial Division of the National Court Register. Its registered office is located in Tarnów, at ul. E. Kwiatkowskiego 8.

Since March 6th 2013, the company has been trading under its new name Grupa Azoty Koltar Spółka z ograniczoną odpowiedzialnością (abbreviated to Grupa Azoty Koltar Sp. z o.o.).

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

#### **Grupa Azoty Kopalnie i Zakłady Chemiczne Siarki Siarkopol Spółka Akcyjna**

The company was registered on January 1st 1997. Its registered office is located in Grzybów. The company was entered into the National Court Register under entry No. KRS 0000185170, on December 29th 2003, by the District Court in Kielce, 10th Commercial Division of the National Court Register.

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

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

**Grupa Azoty Folie Spółka z ograniczoną odpowiedzialnością**

The company was established on May 19th 2014. Its registered office is located in Tarnów. The company was entered into the National Court Register under entry No. KRS 0000514370, on June 24th 2014, by the District Court for Kraków-Śródmieście in Kraków, 12th Commercial Division of the National Court Register.

The company's principal business activities include manufacture of plastic packing goods (PKD 22.22 Z), manufacture of other plastic goods (PKD 22.29 Z), and manufacture of plastics in primary forms (PKD 20.16.Z).

**Grupa Azoty Compounding Spółka z ograniczoną odpowiedzialnością**

The company was established on May 19th 2014. Its registered office is located in Tarnów. The company was entered into the National Court Register under entry No. KRS 0000514097, on June 18th 2014, by the District Court for Kraków-Śródmieście in Kraków, 12th Commercial Division of the National Court Register.

The company's principal business activities include manufacture of plastics in primary forms (PKD 20.16.Z), manufacture of plastic packing goods (PKD 22.22 Z), and manufacture of other plastic goods (PKD 22.29 Z).

Grupa Azoty Compounding Sp. z o.o.'s business will consist in plastics compounding using innovative technological solutions.

**Associates of Grupa Azoty S.A.**

**Navitrans Spółka z ograniczoną odpowiedzialnością**

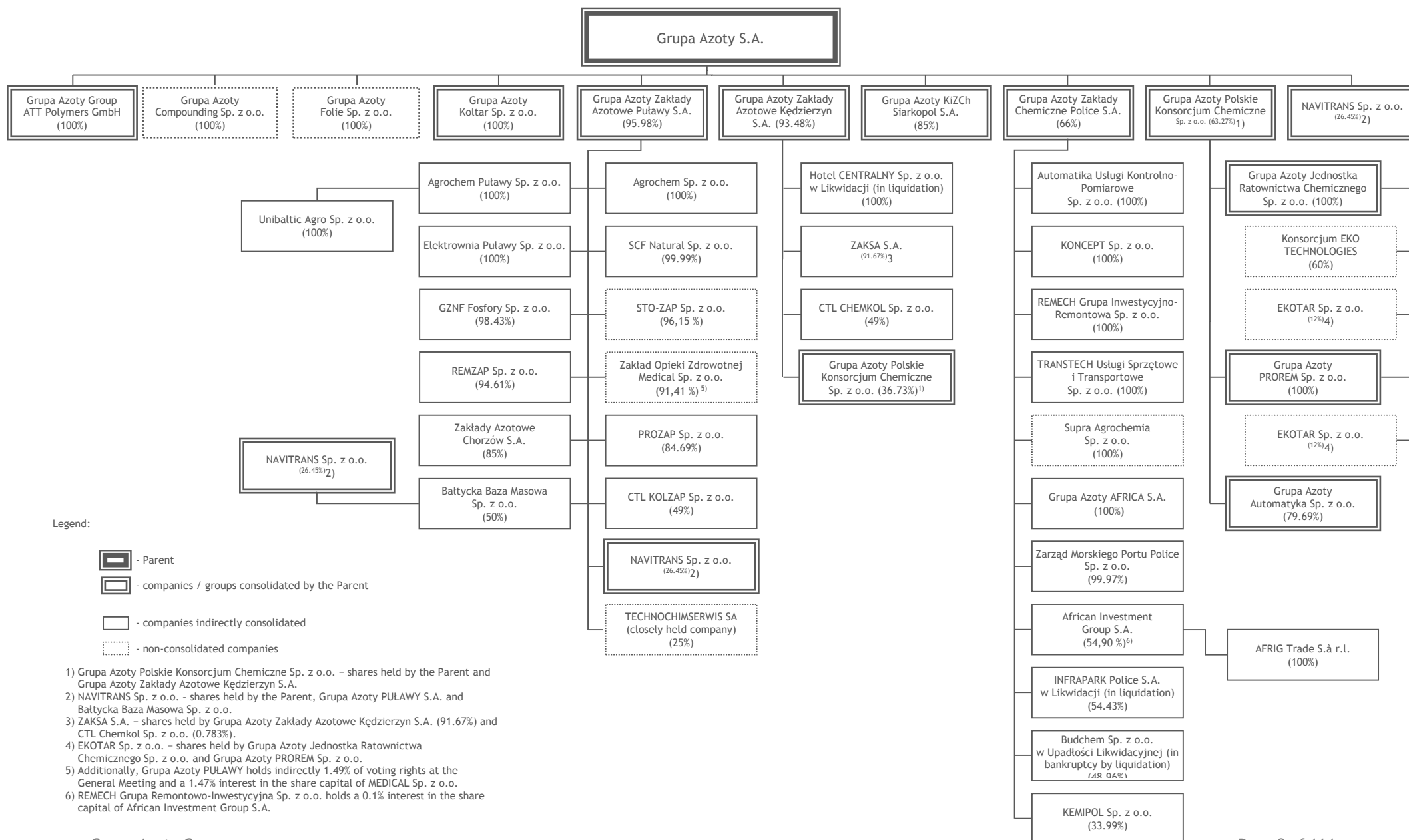
The company was registered on June 30th 1992. Its registered office is located in Gdynia, at ul. Świętojańska 18/5. The company was entered into the National Court Register under entry No. KRS 0000062936, on November 20th 2001, by the District Court for Gdańsk-Północ, 8th Commercial Division of the National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

The company's principal business activities include other transport agency activities (PKD 52.29 C).

Parent's shareholdings in subsidiaries as at December 31st 2014

			<i>(currency)</i>
Company	Registered office/address	Share capital	% of shares directly attributable
Grupa Azoty ATT Polymers GmbH	Forster Straße 72 03172 Guben, Germany	EUR 9,000,000	100.00
Grupa Azoty Koltar Sp. z o.o.	ul. Kwiatkowskiego 8 33-101 Tarnów, Poland	PLN 32,760,000	100.00
Grupa Azoty PUŁAWY Group	al. Tysiąclecia Państwa Polskiego 13 24-110 Puławy, Poland	PLN 191,150,000	95.98
Grupa Azoty ZAK S.A.	ul. Mostowa 30 A skr. poczt. 163 47-220 Kędzierzyn-Koźle, Poland	PLN 285,064,300	93.48
Grupa Azoty POLICE	ul. Kuźnicka 1 72-010 Police, Poland	PLN 750,000,000	66.00
Grupa Azoty PKCh Sp. z o.o.	ul. Kwiatkowskiego 7 33-101 Tarnów, Poland	PLN 85,630,550	63.27
Grupa Azoty SIARKOPOL	Grzybów, 28-200 Staszów, Poland	PLN 55,000,000	85.00
Grupa Azoty Compounding Sp. z o.o.	ul. Chemiczna 118 33-101 Tarnów, Poland	PLN 5,000	100.00
Grupa Azoty Folie Sp. z o.o.	ul. Chemiczna 118 33-101 Tarnów, Poland	PLN 5,000	100.00

Structure of the Group as at December 31st 2014:



- Legend:
- Parent
  - companies / groups consolidated by the Parent
  - companies indirectly consolidated
  - non-consolidated companies

- 1) Grupa Azoty Polskie Konsorcjum Chemiczne Sp. z o.o. – shares held by the Parent and Grupa Azoty Zakłady Azotowe Kędzierzyn S.A.
- 2) NAVITRANS Sp. z o.o. - shares held by the Parent, Grupa Azoty PUŁAWY S.A. and Bałtycka Baza Masowa Sp. z o.o.
- 3) ZAKSA S.A. – shares held by Grupa Azoty Zakłady Azotowe Kędzierzyn S.A. (91.67%) and CTL Chemkol Sp. z o.o. (0.783%).
- 4) EKOTAR Sp. z o.o. – shares held by Grupa Azoty Jednostka Ratownictwa Chemicznego Sp. z o.o. and Grupa Azoty PROREM Sp. z o.o.
- 5) Additionally, Grupa Azoty PUŁAWY holds indirectly 1.49% of voting rights at the General Meeting and a 1.47% interest in the share capital of MEDICAL Sp. z o.o.
- 6) REMECH Grupa Remontowo-Inwestycyjna Sp. z o.o. holds a 0.1% interest in the share capital of African Investment Group S.A.



## Parent's non-controlling interests as at December 31st 2014

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

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

- 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.

## 1.2. Changes in the Group structure

### Settlement of the acquisition of controlling interest in African Investment Group S.A.

The acquisition of African Investment Group S.A. by Grupa Azoty POLICE was finally settled. For more information on the settlement of the transaction, see the annual consolidated financial statements of the Grupa Azoty Group for the 12 months ended December 31st 2014, Note 1.2 Changes in the Group's structure.

### Establishment of FRIG Trade S.à r.l., African Investment Group S.A.'s subsidiary

On May 14th 2014, AFRIG Trade S.à r.l. of Senegal was established, with 100% of its shares acquired by African Investment Group S.A. AFRIG Trade S.à r.l.'s business consists in import and distribution of and trade in chemical products and raw materials, as well as storage and logistics services.

### Establishment of a subsidiary, Grupa Azoty AFRICA S.A., by Grupa Azoty POLICE

September 10th 2014 saw the registration of Grupa Azoty POLICE's subsidiary, Grupa Azoty AFRICA S.A. of Dakar, Senegal (established on May 7th 2014). The new company's business profile will include import, distribution of and trade in fertilizers and other chemical products, provision of storage and logistics services, as well vocational training of farmers.

### Increase in the share capital of Zarząd Morskiego Portu Police Sp. z o.o. – Grupa Azoty POLICE's subsidiary

On October 30th 2014, the Extraordinary General Meeting of Zarząd Morskiego Portu Police Sp. z o.o. increased the share capital of the company from PLN 19,890,350 to PLN 32,617,300 by issuing 262,193 new shares with a par value of PLN 50 per share. The new shares were acquired by Grupa Azoty POLICE in exchange for a contribution in kind in the form of property, through transfer (in whole or in part)

of the perpetual usufruct right to land, together with buildings, structures and property, plant and equipment. The share capital increase was registered with the National Court Register on December 23rd 2014.

### **Cancellation of liquidation of Supra Agrochemia Sp. z o.o., Grupa Azoty POLICE's subsidiary**

In accordance with a resolution of the Extraordinary General Meeting of Supra Agrochemia Sp. z o.o. w likwidacji (in liquidation), dated December 16th 2013, the liquidation proceedings were cancelled as of December 31st 2013 and since January 1st 2014 the company has continued its operations under its previous name, Supra Agrochemia Sp. z o.o.

### **Business combination at Grupa Azoty PKCh Sp. z o.o.**

On March 14th 2014, a merger of Grupa Azoty Jednostka Ratownictwa Chemicznego Sp. z o.o. (the acquirer) and Regionalne Laboratorium Oceny Mleka Sp. z o.o. (the acquiree) was registered. The merger was effected through the transfer of all acquiree's assets to the acquirer, with no share capital increase.

### **Establishment of Grupa Azoty Compounding Sp. z o.o. and Grupa Azoty Folie Sp. z o.o.**

On May 19th 2014, the Parent established two new companies: Grupa Azoty Compounding Sp. z o.o. (registered with the National Court Register on June 18th 2014) and Grupa Azoty Folie Sp. z o.o. (registered with the National Court Register on June 24th 2014). Both companies have their registered offices in Tarnów. Share capital of each of the companies equals 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.

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.

### **Dissolution of Dom Wczasowy Jawor Sp. z o.o., Grupa Azoty PUŁAWY's subsidiary**

On May 16th 2014, the Annual General Meeting of Dom Wczasowy Jawor Sp. z o.o. w likwidacji (in liquidation) adopted resolutions to approve the company's liquidation report for the period from March 12th 2013 to May 15th 2014 and distribute its assets to the shareholders. On May 19th 2014, the company's liquidator filed with the registry court to delete the company from the National Court Register. On June 9th 2014, Dom Wczasowy Jawor Sp. z o.o. w likwidacji was deleted from the National Court Register. Deletion became final on June 20th 2014.

On September 30th 2014, the Extraordinary General Meeting of Grupa Azoty PUŁAWY approved the sale of an organised part of business under the name of Dom Wczasowy Jawor, including all tangible and intangible assets and liabilities. The subsidiary will be sold by way of an open tender.

### **Share capital increase at Agrochem Puławy Sp. z o.o.**

By virtue of a resolution by the Extraordinary General Meeting of Agrochem Puławy Sp. z o.o. of June 9th 2014, the company's share capital was increased by PLN 10,000 thousand, to PLN 42,533.5 thousand, through an issue of 100,000 new, equal and indivisible shares, with a par value of PLN 100 per share. All of the new shares were acquired by the company's existing shareholder, Zakłady Azotowe Puławy S.A., and paid for with cash.

Another share capital increase of PLN 7,466.5 thousand was effected under a resolution of September 1st 2014. The share capital was increased to PLN 50,000 thousand through the creation of 74,665 new, equal and indivisible shares with a par value of PLN 100 per share. Again, the new shares were acquired by the company's existing shareholder, Zakłady Azotowe Puławy S.A., and paid for with cash.

On October 22nd 2014, the increase was registered with the National Court Register.

#### **Acquisition of Unibaltic Agro Sp. z o.o. by Agrochem Puławy Sp. z o.o.**

On September 11th 2014, Agrochem Puławy Sp. z o.o. (a subsidiary of Grupa Azoty PUŁAWY) acquired 6,793 shares in Unibaltic Agro Sp. z o.o., representing 100% of its shares. Consequently, Unibaltic Agro Sp. z o.o. has become a member of the Grupa Azoty PUŁAWY Group.

For more information on the settlement of the transaction, see the annual consolidated financial statements of the Grupa Azoty Group for the 12 months ended December 31st 2014, Note 1.2 Changes in the Group's structure.

#### **Grupa Azoty PUŁAWY's increased interest in Elektrownia Puławy sp. z o.o.**

On December 4th 2014, Elektrownia Puławy Sp. z o.o. (a subsidiary of Grupa Azoty PUŁAWY) cancelled the contract award procedure for construction of the Puławy Power Plant. The decision was caused by the absence of legislative solutions that would provide long-term support to high-efficiency co-generation projects. On December 23rd 2014, Grupa Azoty PUŁAWY and PGE Górnictwo i Energetyka Konwencjonalna S.A. agreed to terminate the joint venture agreement signed on May 31st 2011 for the purposes of the Puławy Power Plant project. Under the termination agreement, all costs incurred on the project will be shared equally between the parties.

On December 23rd 2014, Grupa Azoty PUŁAWY acquired from PGE GiEK 11,074 equal and indivisible shares in Elektrownia Puławy Sp. z o.o. for a total price of PLN 16,395,535.91; following the transaction, Grupa Azoty PUŁAWY holds 100% of shares and voting rights in the company.

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

##### **Share capital increase at Agrochem Sp. z o.o.**

The Extraordinary General Meeting of Agrochem Sp. z o.o. of Dobrze Miasto held on January 22nd 2015 passed a resolution to increase the company's share capital by PLN 19,500 thousand, to PLN 20,000 thousand, through an issue of 39,000 new shares with a par value of PLN 500 per share; the new shares will be paid for with cash.

### 1.3. Organisational or equity ties between Grupa Azoty Group companies and other entities

Grupa Azoty Group companies' interests in other entities as at December 31st 2014

*Grupa Azoty PUŁAWY Group*

Company	Ownership interest (%)	Share capital
Agrochem Sp. z o.o. (*)	100.00 %	500
Agrochem Puławy Sp. z o.o.	100.00 %	50,000
Elektrownia Puławy Sp. z o.o.	100.00 %	22,148
SCF Natural Sp. z o.o.	99.99 %	15,001
Gdańskie Zakłady Nawozów Fosforowych Fosfory Sp. z o.o.	98.43 %	29,003
STO-ZAP Sp. z o.o.	96.15 %	1,117
Remzap Sp. z o.o.	94.61 %	1,812
Zakład Opieki Zdrowotnej Medical Sp. z o.o.	91.41 %	1,074
Zakłady Azotowe Chorzów S.A.	85.00 %	30,000
Prozap Sp. z o.o.	84.69 %	826
Baltycka Baza Masowa Sp. z o.o.	50.00 %	19,500
CTL Kolzap Sp. z o.o.	49.00 %	2,000
Navitrans Sp. z o.o.	26.45 %	76
Technochimserwis S.A. (closely held company)	25.00 %	800 (roubles)

The following companies were excluded from consolidation because of their immateriality:

- Zakład Opieki Zdrowotnej Medical Sp. z o.o.
- STO-ZAP Sp. z o.o.

(\*) The company's share capital was increased to PLN 20,000 thousand under an Extraordinary General Meeting resolution on January 22nd 2015.

**Grupa Azoty ZAK Group**

Company	Ownership interest (%)	Share capital
ZAKSA S.A.	91.67 %	6,000
CTL Chemkol Sp. z o.o.	49.00 %	4,000
Grupa Azoty PKCh Sp. z o.o.	36.73 %	85,631

**Companies placed in liquidation**

Hotel Centralny w likwidacji Sp. z o.o. (in liquidation)	100.00 %	7,790
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**Grupa Azoty POLICE**

Company	Ownership interest (%)	Share capital
AUTOMATIKA Usługi Kontrolno - Pomiarowe Sp. z o.o.	100.00 %	7,168
KONCEPT Sp. z o.o.	100.00 %	511
REMECH Grupa Inwestycyjno-Remontowa Sp. z o.o.	100.00 %	6,212
TRANSTECH Usługi Sprzętowe i Transportowe Sp. z o.o.	100.00 %	9,783
Grupa Azoty Africa S.A.	100.00 %	132,000 (CFA)
Supra Agrochemia Sp. z o.o.	100.00 %	19,721
Zarząd Morskiego Portu Police Sp. z o.o.	99,98 %	32,617
African Investment Group S.A.	54.90 %	340,000 (CFA)
Budchem Sp. z o.o. w upadłości likwidacyjnej (in bankruptcy by liquidation)	48.96 %	1,201
KEMIPOL Sp. z o.o.	33.99 %	3,445
<b>Companies placed in liquidation</b>		
Infrapark Police S.A. w likwidacji (in liquidation)	54.43 %	14,986

The following company was excluded from consolidation because of its immateriality:

- Supra Agrochemia Sp. z o.o.

**Grupa Azoty PKCh Sp. z o.o.**

Company	Ownership interest (%)	Share capital
Grupa Azoty JRCh Sp. z o.o.	100.00 %	21,749
Grupa Azoty PROREM Sp. z o.o.	100.00 %	11,567
Grupa Azoty Automatyka Sp. z o.o.	79.69 %	4,547

The following subsidiaries of Grupa Azoty JRCh Sp. z o.o. were excluded from consolidation because of their immateriality:

- Konsorcjum EKO TECHNOLOGIES
- EKOTAR Sp. z o.o.

## 1.4. Parent's branches (divisions)

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

## 1.5. Employment

### Number of employees at the Grupa Azoty Group

Employee group	as at Dec 31 2014	as at Dec 31 2013
blue collar employees	9,034	9,057
white collar employees	4,946	4,822
<b>Total</b>	<b>13,980</b>	<b>13,879</b>

### Number of employees at consolidated subsidiaries

Employee group	as at Dec 31 2014	as at Dec 31 2013
blue collar employees	7,731	7,759
white collar employees	4,161	4,048
<b>Total</b>	<b>11,892</b>	<b>11,807</b>

### Number of employees at the Group: average for the year and as at the end of 2014

Employee group	average annual	as at Dec 31 2014
blue collar employees	9,048	9,034
white collar employees	4,909	4,946
<b>Total</b>	<b>13,957</b>	<b>13,980</b>

### Number of employees at consolidated subsidiaries: average for the year and as at the end of 2014

Employee group	average annual	as at Dec 31 2014
blue collar employees	7,752	7,731
white collar employees	4,119	4,161
<b>Total</b>	<b>11,871</b>	<b>11,892</b>

### Employee turnover from January 1st to December 31st 2014

Employee group	2014
blue collar employees	697
white collar employees	596
<b>Total</b>	<b>101</b>

#### Employment by summary education

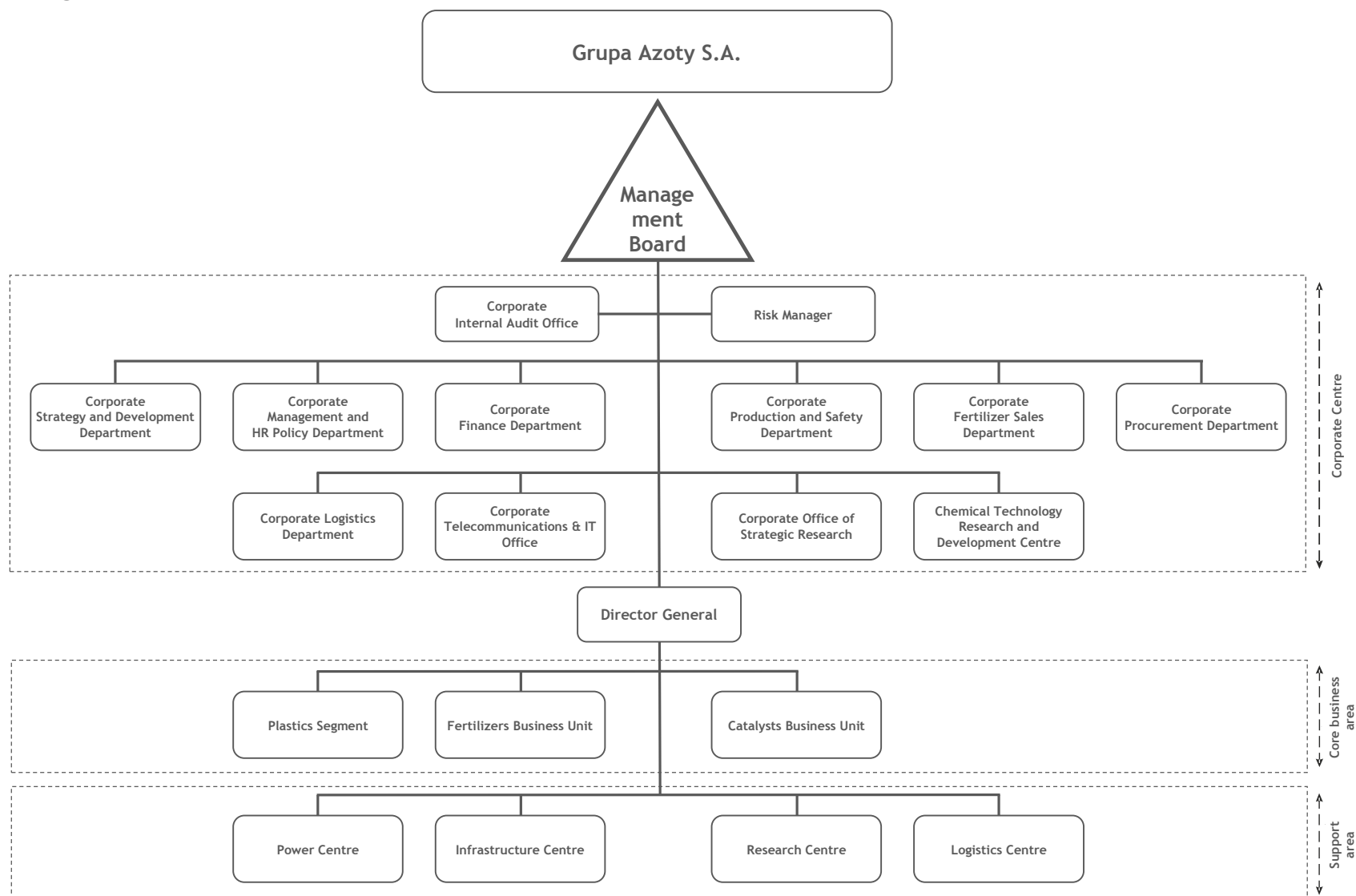
Description	Year	University or equivalent				
		Total employment	University or equivalent	Secondary	Vocational	Primary
Number of employees	2014	13,980	3,722	5,757	3,610	891
Number of employees	2013	13,879	3,479	5,760	3,717	923

#### Employment by length of service

Description	Year	above 20 years			
		up to 5 years	6-10 years	11-20 years	above 20 years
Number of employees	2014	1,583 11.3%	1,908 13.6%	2,764 19.8%	7,725 55.3%
Number of employees	2013	1,419 10.2%	1,823 13.1%	2,503 18.0%	8,134 58.6%

## 2. Management of the Grupa Azoty Group

### 2.1. Organisational chart





## 2.2. Changes in key management policies

### Parent's Organisational Rules

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

### The Grupa Azoty Group's Code of Ethical Conduct

On May 19th 2014, the Grupa Azoty Group Code of Ethical Conduct was implemented for use in 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 Group employees as well as trading partners.

### Code of Organisational Culture - The Grupa Azoty Group Organisational and Management System

On June 30th 2014, the Code of Organisational Culture - The Grupa Azoty Group Organisational and Management System was implemented at the Group. 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 Parent

The need to adapt the Parent's organisation to the requirements of modern management at a large corporate group has necessitated the following changes within the Parent's structure:

### Expansion of the Shared Services Centre to include support for the Parent's subsidiaries

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

### 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. Parent's equity and other instruments. Significant shareholders

#### 3.1. Total number and par value of Parent shares, holdings of Parent shares by supervisory and management personnel, and interests of such persons in the Parent's related entities

Number and par value of shares as at the date of issue of this Report:

- 24,000,000 Series AA shares with a par value of PLN 5 per share,
- 15,116,421 Series B shares with a par value of PLN 5 per share,
- 24,999,023 Series C shares with a par value of PLN 5 per share,
- 35,080,040 Series D shares with a par value of PLN 5 per share.

The total number of Parent 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 Parent.

#### Parent shares held by its supervisory personnel

	Number of shares/voting rights		
	As at Jan 1 2014	as at Dec 31 2014	as at Mar 10 2015
Tomasz Klikowicz	190	190	190

The Parent's other supervisory personnel did not hold any Parent shares as at December 31st 2014 and as at the date of this Report.

#### Shares held by the Parent's supervisory personnel in its related parties as at March 10th 2015

Member of the Management Board	Related party	Number of shares	Par value
Krzysztof Jałosiński	Grupa Azoty POLICE	1,000	PLN 10
Marek Kapłucha	Grupa Azoty PUŁAWY	2	PLN 10

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

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

The Parent is not aware of any agreements which could lead to future changes in the number of shares held by the existing shareholders.

#### 3.3. Control systems for employee share ownership plans

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

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

The Grupa Azoty Group companies do not hold any treasury shares.

Parent shares held by persons acting on behalf of the Grupa Azoty Group companies as at the date of this Report

	Number of shares
<b>Management Board</b>	
Krzysztof Pieńkowski - Grupa Azoty ATT Polymers GmbH	634
Jerzy Woliński - Grupa Azoty PKCh Sp. z o.o.	128
<b>Supervisory Board</b>	
Małgorzata Malec - Grupa Azoty ATT Polymers GmbH	360
Wiesław Koziół - Grupa Azoty Automatyka Sp. z o.o.	360
Jerzy Koziara - Grupa Azoty ZAK S.A., Grupa Azoty PUŁAWY Group	639

### 3.5. Issue, redemption and repayment of debt and equity securities

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

### 3.6. Use of proceeds from share issues

The Parent 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. Parent shares

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

There are in total 99,195,484 outstanding shares of the Parent, with a par value of PLN 5 per share. Parent shares (ticker: ATT) are listed on the WSE main market in the continuous trading system and are included in the WIG, WIG-Poland, mWIG30 and mWIG40 indices and the chemical sector index, WIG-Chemia.

The Parent 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 Parent has become a member of an elite group of stable, reliable and trustworthy organisations. Its inclusion in the RESPECT Index provides investors with an additional assurance that the Parent is a stable and safe enterprise, managed to the highest standards of sustainable development. On December 18th 2014, the Parent 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, the Parent 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 Parent was selected to feature in the prestigious FTSE Emerging Markets index. The Parent 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 key information on Parent shares, including information on voting 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

Shareholder	Number of shares	% of share capital	Number of votes	% votes
State Treasury of Poland	32,734,509	33.00	32,734,509	33.00
Norica Holding S.à r.l.	10,021,348	10.10	10,021,348	10.10
ING Pension Fund	9,883,323	9.96	9,883,323	9.96
Rainbee Holdings Limited *)	9,820,352	9.90	9,820,352	9.90
TFI PZU S.A.	8,689,591	8.76	8,689,591	8.76
European Bank for Reconstruction and Development	5,700,000	5.75	5,700,000	5.75
Other	22,346,361	22.53	22,346,361	22.53
	99,195,484	100.00	99,195,484	100.00

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

including:

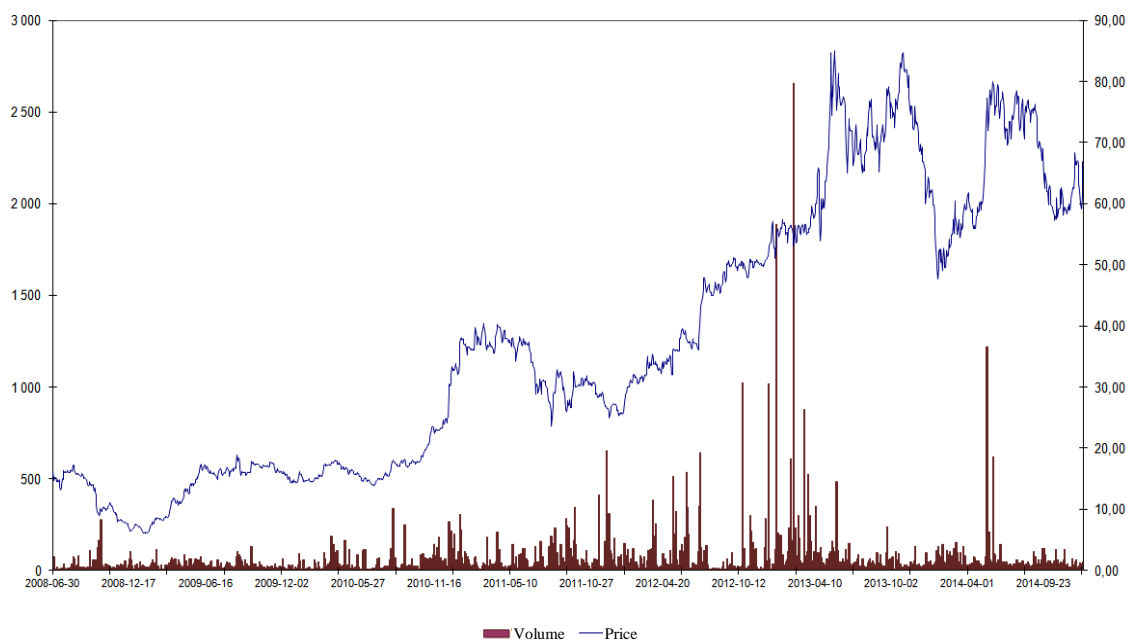
Series AA and Series B shares 39,116,421  
Series C shares 24,999,023  
Series D shares 35,080,040

In the period from December 31st 2014 to the date of issue of this Report, the Parent has not been notified of any changes in large holdings of its shares.

## Performance of Parent shares

The price of Parent shares 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 70.60. 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.

### Parent share price from the IPO (June 30th 2008) to December 31st 2014



Source: GPWInfoStrefa, Grupa Azoty.

#### Dividend policy

The Parent's dividend policy is consistent with the Strategy for 2013-2020. Distributions to shareholders depend on and are proportionate to the Parent's earnings and financial standing. In its dividend proposals, the Parent'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 Parent 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 Parent 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 Parent shares, published between January 1st 2014 and the date of this Report

Date	Recommendation	Price Target price (PLN)	Price at recommendation date (PLN)	Broker
Mar 3 2015	sell ►	50.00 ▲	77.50	DM BZ WBK
Feb 16 2015	hold ▲	68.90 ▲	72.00	ING Securities
Feb 1 2015	sell ►	59.00 ►	71.00	DM BOŚ
Jan 26 2015	sell ►	51.20 ▼	60.00	ING Securities
Jan 12 2015	sell ►	62.00 ►	67.90	Societe Generale
Dec 14 2014	hold ▲	59.00 ▲	60.05	DM BOŚ
Dec 12 2014	sell ►	53.95 ▼	62.05	PKO BP
Oct 27 2014	sell ►	49.30 ▼	59.11	DM BZ WBK
Oct 9 2014	sell	55.40	59.62	UniCredit CAIB
Oct 6 2014	sell ►	49.80 ▼	63.05	DM BOŚ
Sep 23 2014	sell	54.80	68.00	ERSTE Securities
Sep 22 2014	sell	60.00	69.00	Citigroup
Sep 4 2014	sell	62.00	75.50	Societe Generale
Aug 8 2014	sell ►	44.70 ▼	70.60	DM BDM
Jul 24 2014	sell	52.30	73.76	DM BOŚ
Jul 24 2014	sell ►	55.20 ▲	76.25	ING Securities
Jul 11 2014	sell ►	65.30 ▲	73.50	Wood&Company
Jul 8 2014	sell ►	60.90 ▼	70.50	PKO BP
Jun 3 2014	reduce ▼	72.00 ▲	79.50	Raiffeisen
Feb 10 2014	sell ►	50.20 ▼	52.50	DM IDM SA
Jan 31 2014	hold ▲	56.50 ▼	52.60	Raiffeisen
Jan 30 2014	sell ►	50.30 ▼	52.53	DM BZ WBK
Jan 29 2014	ACCUMULATE	65.60 ▲	52.50	Millenium DM
Jan 20 2014	sell ►	50.50 ▼	55.49	ING Securities

## Investor relations

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

Following publication of periodic reports, the Parent and the 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 Parent'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 Parent 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. The corporate website is a key tool for communicating with the capital market, featuring the Parent's current and periodic reports, important information about AGMs and EGMs, analyst recommendations and financial results. The 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 Parent'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.

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

The Parent 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 Parent 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

### Key information on the Grupa Azoty Group

The Grupa Azoty Group is the largest chemical group in Poland and a significant player in Central and Eastern Europe, offering mineral fertilizers and B2B products, including plastics and chemicals. The Group's business is divided into the following segments:

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

### Agro Fertilizers

Fertilizers are the Group's key business segment. As part of its fertilizers business, the Group offers:

- nitrogen fertilizers, including with a sulfur content,
- compound fertilizers,
- phosphorites.

The Agro Fertilizers segment also offers ammonia, nitric acid and mixed acids. Companies which manufacture products classified within this segment include the Parent, Grupa Azoty ZAK S.A., Grupa Azoty POLICE, Grupa Azoty PUŁAWY and its subsidiaries, e.g. GZNF Fosfory Sp. z o.o., Zakłady Azotowe Chorzów S.A. and other Group subsidiaries.

The Grupa Azoty Group is implementing a project to mine phosphorites in its own mine in Senegal.

### Plastics

Plastics is another important business segment, which produces caprolactam, polyamide (PA6), polyacetal (POM), cyclohexanone and cyclohexanol.

Plastics and associated products are manufactured by three Group companies, i.e. the Parent, Grupa Azoty PUŁAWY and Grupa Azoty ATT Polymers GmbH.

The Grupa Azoty Group is the leading manufacturer of polyamide 6 in Poland, the fifth largest integrated producer in the European Union, and the only producer of polyacetal in Poland and its major manufacturer in the European market.

### Chemicals

The Chemicals segment is an important area of the Group's operations, comprising such products as OXO alcohols, plastifiers, melamine, technical-grade urea, titanium white, sulfur and hydrogen peroxide.

Grupa Azoty ZAK S.A. is the sole manufacturer of OXO alcohols in Poland, ranking seventh in Europe. It also ranks first in Poland and fourth in Europe among manufacturers of plasticizers.

Grupa Azoty POLICE remains the only producer of titanium white in the country and a major manufacturer in Europe, while Grupa Azoty PUŁAWY ranks third globally among producers of melamine.

### Energy Segment

The products of the Group's Energy Segment are sold locally, in the immediate vicinity of the Group companies' plants.

In 2014, electricity was sold:

- to customers connected to the Power Distribution Systems of the Group companies,
- on the Power Market,
- on the Balancing Market (sale of excess volumes).

Companies of the Grupa Azoty Group operate their own electricity and energy carrier distribution networks.

### Other Activities

The Grupa Azoty Group manufactures catalysts which are used in selected chemical synthesis processes and for production of ammonia, hydrogen and synthesis gas.

The Other Activities segment of the Grupa Azoty Group comprises various operations in the area of environmental protection, administration, testing-related diagnostic and inspection services, as well



as management of the organisation's shared property. Logistics is an important element of this system.

## 4.1. Overview of key products

### Fertilizers

The Grupa Azoty Group classifies fertilizers as nitrogen (single-component) fertilizers and compound fertilizers, the latter including at least two of the following components: nitrogen, phosphorus or potassium.

**Nitrogen fertilizers** are substances or mixtures of substances where nitrogen is the primary plant nutrient. Nitrogen fertilizers include:

**Urea** – a nitrogen fertilizer containing 46% nitrogen; it is produced in Puławy (PULREA®), in Police (mocznil.pl®) and in Kędzierzyn. Urea is a universal fertilizer – it can be used for all crops at various growth stages, both in granulated and liquid form. Outside agriculture, urea is used for production of adhesive resins, which find application in the wood-based boards industry as well as in the pharmaceuticals and cosmetics industries. Urea solution – marketed by the Grupa Azoty Group under the Noxy™ (formerly AdBlue®) brand; it is used in the automotive industry, as an agent reducing nitrogen oxide emissions from industrial emitters, as well as in exhaust systems of utility vehicles with selective catalytic reduction (SCR). Urea may also be further processed into urea-ammonium nitrate solution (RSM®), which is a liquid fertilizer, or into melamine.

**Calcium ammonium nitrate (CAN)** is a nitrogen fertilizer with a nitrogen content of up to 28%. 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 Grupa Azoty Group markets CAN in a number of granule varieties; the offering includes the mechanically granulated Salmag® fertilizer range (including varieties with a sulphur or boron content), or bead fertilizers such as CAN 27 standard or CAN with boron.

**Ammonium nitrate** is a nitrogen fertilizer which is easily dissolved in water, containing between 30% and 34% nitrogen. The Grupa Azoty Group offers a wide variety of this product in various granule forms and sizes, such as mechanically granulated ZAKsan®, with excellent sowing properties, the PULAN® beaded ammonium nitrate, or the “30 makro” ammonium 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** is a nitrogen fertilizer with sulfur, containing 21% nitrogen and 24% sulfur. It is a by-product in the manufacture of caprolactam. Like other nitrogen-sulfur fertilizers, ammonium sulfate increases sulfur content in the soil. The Grupa Azoty Group manufactures a wide range of ammonium sulfate in various granule forms and sizes: selection, macro, standard and crystalline.

### Compound fertilizers (NPK, NP)

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

Compound fertilizers may be used to provide nutrients to all types of arable crops. The Group's current offering comprises more than 40 varieties of compound fertilizers, which are sold under the following trade names: Polifoska®, Polidap®, Polimag® Superfosfat, Amofoska®, etc. The Group also manufactures dedicated fertilizers, whose composition is adapted to the needs of specific customers.

### Liquid fertilizers

**Urea-ammonium nitrate solution (UAN - RSM®)** is a highly concentrated liquid fertilizer containing nitrogen in amide, nitrate and ammonium forms. Thanks to its liquid form, UAN-RSM® is easily absorbed by plants.

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

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

**Calcium nitrate solution** is used to supply nutrients to tomatoes, cucumbers, peppers, as well as cut and potted flowers grown under shelter. However, this solution is also used on a large scale for foliar feeding of calcium and nitrogen to open-grown plants.

### Engineering plastics

Engineering plastics (technical thermoplastics) are a group of products which exhibit high thermal resistance and good mechanical properties.

The Grupa Azoty Group manufactures the following types of engineering plastics: basic polyamide 6 (PA6), polyacetal (POM) and modified plastics.

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

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

**Caprolactam** – 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. It is manufactured in Tarnów and Puławy.

**Cyclohexanon and cyclohexanol** are used by the Company, either separately or as a mixture, mainly 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, cyclohexanone and cyclohexanol are used to produce caprolactam, which is later used in the production of polyamides manufactured in Tarnów and Guben.

### OXO alcohols

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

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

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

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

**Octanol F** is an oxo alcohol used as a flotation agent in mining and as an auxiliary substance in the textile industry.

### Plasticizers

The Grupa Azoty Group manufactures four plasticizers: DEHP, DIBP, DPHP and DEHT. Plasticisers are used in the chemical industry as agents softening plastics, mainly PVC, and as an additive to paints and varnishes. The Group manufactures plasticizers using an integrated manufacturing facility, with the majority of materials manufactured on site, except for two types of feedstock: 2-propylheptyl alcohol and terephthalic acid.

**DEHT** – bis(2-ethylhexyl) ester of 1,4-benzenedicarboxylic acid (currently referred to as Oxoviflex™), used in the processing of plastics as a non-phthalate plasticizer, and in the paint and varnish industry. It also has a wide range of other applications, from the manufacture of floor and wall coverings to children's toys.

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

**Oxoplast Medica®** – bis(2-ethylhexyl) phthalate with low content of heavy metals – is a plasticizer used in medicine (e.g. for production of blood storage bags).

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

**Melamine** is a non-toxic, non-flammable product in the form of a white powder. It is characterized by high surface hardness, and resistance to water, temperature, light, and stray voltage. Melamine is used for production of synthetic resins, thermosetting plastics, adhesives, paints, varnishes (including furnace varnishes), auxiliary materials for the textile industry, fire retardants, polyurethane foams, concrete liquefiers, moulding mixtures used in the electrical engineering industry, microchips, compact discs, optical instruments, and household equipment.

**Hydrogen peroxide** is an inorganic compound from the group of peroxides, being a reactive oxygen species offered in the form of 35%, 49.5%, 50% and 60% stabilized water solutions. The Group also offers a special variety of 35% hydrogen peroxide for food processing applications, which is dedicated for use in aseptic food product packaging and filling processes in Combibloc and Tatra Pak systems. Hydrogen peroxide is used for bleaching in the paper and textile industries, production of inorganic peroxy compounds, disposal of industrial and urban wastewater, chemical processing (as a process medium), removal of SO<sub>2</sub> and NO<sub>x</sub> from flue gas, protection against corrosion in the electronic industry, bleaching and colouring of hair in the cosmetic industry, teeth whitening (as an ingredient of toothpastes and rinses), bactericidal processes in the food industry, in brewery, bakery, seed production, as well as military technology (as a component of rocket propellants and as a substance used in torpedo propulsion systems).

**Titanium white** (titanium dioxide - TiO<sub>2</sub>) is a pigment and an important manufacturing component used in numerous industries. The key consumer for TiO<sub>2</sub> pigments is the paint and varnish industry. They are also used in the plastics, paper, rubber, textile, pharmaceutical and cosmetics industries. The Grupa Azoty Group also offers certified pigments for use in goods that come into contact with foodstuffs. TiO<sub>2</sub> pigments are sold under the registered trademark Tytanpol®. Grupa Azoty POLICE currently manufactures six types of titanium white.

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

**Phosphorites** occur as natural deposits in various parts of the globe. Phosphate rock is a sedimentary rock containing phosphate bearing minerals which, after being mined and beneficiated, are used mainly to produce phosphoric acid. Phosphoric acid is an intermediate product used to manufacture phosphate fertilizers such as triple super phosphate (TSP), diammonium phosphate (DAP), and compound fertilizers (NP and NPK). The Grupa Azoty Group is implementing a project to mine phosphorites in its own mine in Senegal.

**Sulfur** – the product offered by the Grupa Azoty Group is mined sulfur. Elemental sulfur improves, among other things, nitrogen use efficiency by plants, which makes it a useful compound of fertilizers. Sulfur is mainly used to produce sulfuric acid.

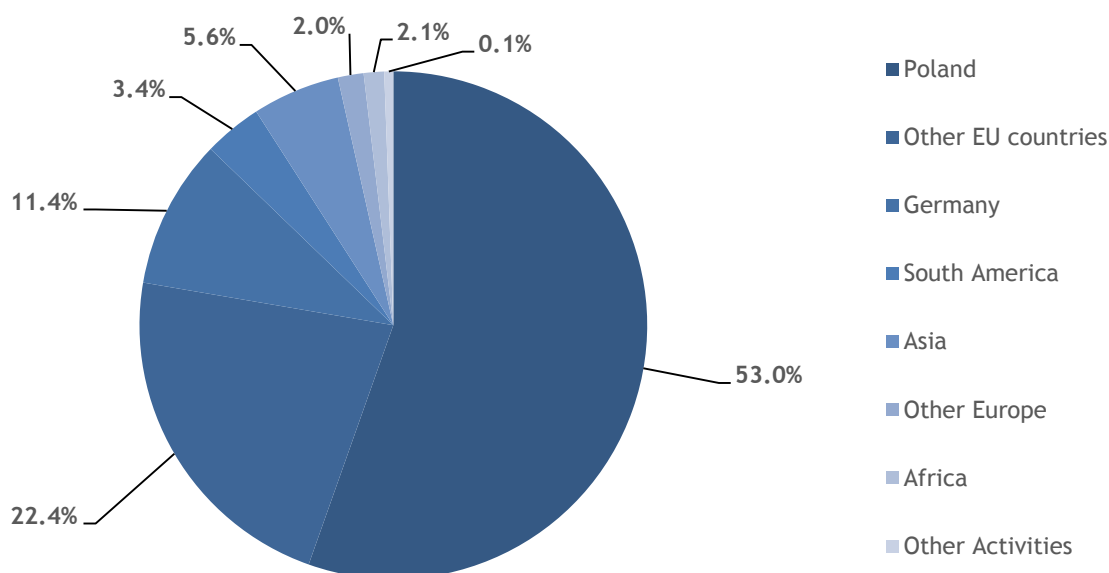
Grupa Azoty SIARKOPOL offers liquid sulfur, prilled sulfur, two varieties of insoluble sulfur, flaked sulfur, and five varieties of milled sulfur. Grupa Azoty SIARKOPOL is the only sulfur mining company in Poland and globally.

## 4.2. Sales markets and sources of strategic raw materials

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

Fertilizers and chemicals (urea and OXO alcohols) are the key products sold in the domestic market. Exports to the EU are mainly fertilizers (ammonium nitrate, ammonia) and OXO alcohols, whereas Asian exports are mostly caprolactam and polyamides, and South American exports include chiefly fertilizers.

Sales by geographies in 2014



Source: Company data.

## Sources of strategic raw materials

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

### Natural gas

PGNiG S.A. supplied natural gas from the transmission network or from local sources under long-term agreements. Supplies from other trading partners were executed under short-term agreements. In 2014, the Grupa Azoty Group purchased 61.4% of its natural gas from PGNiG S.A. and the remaining 38.6% from other sources.

### Phosphate rock

Phosphate rock was purchased under periodic or spot contracts, chiefly from North African producers, given the material's abundance in the region, as well as the well-developed local sea logistics infrastructure. The Group is diversifying its procurement strategy, relying strongly on its own deposits in Senegal, which give it a vital competitive advantage. The situation in the phosphorite market is to a large extent driven by the situation in the fertilizers sector. The Grupa Azoty Group has in place a joint phosphate rock purchase programme for the production plants of Grupa Azoty POLICE and GZNF Fosfory Sp. z o.o.

### Ammonia

The Group's procurement strategy in this area is based on optimisation of intragroup ammonia supplies. The Grupa Azoty Group is Poland's largest ammonia manufacturer, and operates several ammonia units. Apart from satisfying its own requirements, the Group sells surplus ammonia to external customers (chiefly Grupa Azoty POLICE and Grupa Azoty ZAK). Effective implementation of the procurement process largely depends on conditions prevailing on the fertilizer market and in the natural gas sector. The Group is the largest consumer of ammonia on the domestic market and in the region.

### Propylene

The bulk of the Group's purchases of propylene are made under annual contracts, with supplementary purchases made on the spot market. Propylene prices are driven to a large extent by oil prices. In 2014, as in previous years, Western European markets were the main propylene suppliers.

### Potassium chloride

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

### Phenol

The Group's phenol procurement strategy is based on two primary sources - Western European and domestic suppliers. Also, 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 Group has commenced work on developing its logistics infrastructure using the Group's potential in this area.

### Sulfur

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

### Methanol

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

### Benzene

Benzene is mainly supplied under one-year contracts, with supplementary purchases made on the spot market. Benzene is sourced chiefly from domestic and CEE suppliers. The Grupa Azoty Group is the largest benzene consumer in Poland. The Group 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.

### 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.

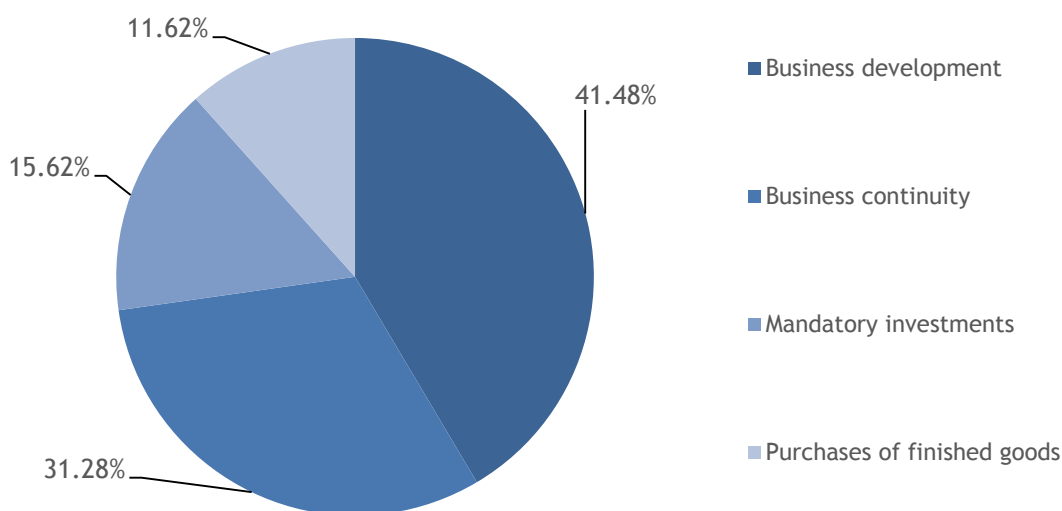
## 4.3. Key investments in Poland and abroad

The Group's total capital expenditure in 2014 was PLN 572,197 thousand. This amount does not include expenditure on overhauls of PLN 40,506 thousand, maintenance capex of PLN 110,792 thousand, prepayments of PLN (19,638 thousand), and other spending directly related to investment projects of PLN 10,263 thousand.

Structure of capital expenditure:

- |                              |                      |
|------------------------------|----------------------|
| • Business development       | PLN 237,337 thousand |
| • Business continuity        | PLN 179,009 thousand |
| • Mandatory investments      | PLN 89,365 thousand  |
| • Purchase of finished goods | PLN 66,486 thousand  |

Structure of capital expenditure in 2014



Source: Company data

Capital expenditure at the Grupa Azoty Group in 2014:

• Parent	PLN 70,298 thousand
• Grupa Azoty POLICE Group	PLN 177,648 thousand
• Grupa Azoty PUŁAWY Group	PLN 169,498 thousand
• Grupa Azoty ZAK Group	PLN 128,870 thousand
• Grupa Azoty SIARKOPOL	PLN 15,653 thousand
• Grupa Azoty PKCh Sp. z o.o.	PLN 6,400 thousand
• Grupa Azoty KOLTAR Sp. z o.o.	PLN 2,080 thousand
• Grupa Azoty ATT Polymers GmbH	PLN 1,750 thousand

**Parent**

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 Parent 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 Parent'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 investments included:

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

The objective of upgrading the interior of ammonia synthesis reactors was to provide new interiors in the ammonia synthesis reactors and to increase the heat and cold exchange surface areas in the exchangers. The project will reduce the cost of ammonia production by reducing consumption of electricity needed to compress synthesis gas and cooling ammonia, making better use of reaction heat to produce steam, and reducing consumption of the coolant.

The project's budget is PLN 18,600 thousand. Expenditure incurred so far is PLN 17,761 thousand, of which PLN 7,539 thousand was spent in 2014.

It will be placed in service after a round of tests scheduled for Q1 2015.

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. Expenditure incurred so far is PLN 14,507 thousand, of which PLN 2,957 thousand was spent in 2014. All deliverables under the project completed in 2014. Currently, the project is at the commissioning stage.

The IT consolidation project covers consolidation of IT systems operated by the Parent and Grupa Azoty ZAK S.A. It will improve the efficiency of managing the Group.

The project's budget was PLN 9,800 thousand. Expenditure incurred totalled PLN 9,655 thousand, of which PLN 590 thousand was spent in 2014. The project was completed and settled.

Bulk fertilizer storage facility project involves construction of a 10,000-tonne bulk fertilizer storage facility with auxiliaries. The new storage facility will be a part of the fertilizer production line and will enable the company to season and to store in appropriate conditions its Saletrosan® 26 (macro granules ASN) and Saletrzak 27 Makro (macro granules CAN).

The project's budget is PLN 43,000 thousand. Final 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 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. Expenditure incurred so far is PLN 403 thousand, all of which was spent in 2014. Completion of the project is planned for 2015.

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. Expenditure incurred so far is PLN 150 thousand, all of which was spent in 2014. Final completion of the project is planned for 2016.

Increase of ammonia production capacities – the project's objective is to increase the Group'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 Group 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. The amount of capital expenditure incurred until the end of 2014 was PLN 167 thousand. Final completion of the project is planned for 2016.

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

The project's budget is PLN 45,400 thousand. The amount of capital expenditure incurred until the end of 2014 was PLN 373 thousand. Final completion of the project is planned for 2016.

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

The project's budget is PLN 44,600 thousand. The amount of capital expenditure incurred until the end of 2014 was PLN 373 thousand. Final completion of the project is planned for 2016.

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. The amount of capital expenditure incurred until the end of 2014 was PLN 8,095 thousand. Final completion of the project is planned for 2016.



## Grupa Azoty PUŁAWY

Major projects in 2014 included:

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

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

The project's budget is PLN 69,500 thousand. The project was completed. The project was placed in service. Expenditure incurred totalled PLN 65,927 thousand, of which PLN 13 thousand was spent in 2014.

Phase 1 of the project related to production of solid fertilizers based on urea and ammonium sulfate was completed. It involved the construction of a packaging shop complex and a product storage facility, a technical and amenity building, an office and amenity building, as well as a passage connecting the newly-built packaging shop with the existing urea packaging shop. The technical documentation for Phase 2 of the project (PULGRAN production unit) was prepared.

The project's budget is PLN 137,500 thousand. Expenditure incurred so far is PLN 98,393 thousand, of which PLN 47,410 thousand was spent in 2014.

The technological start-up of the unit will commence at the beginning of Q2 2015.

Other investment projects are also under way to construct new or expand/alter existing units, which are of paramount importance to further development of the existing production lines.

The key project in this area is the construction of ammonia storage and distribution facilities completed in 2014. The new facilities, with a capacity of 15,000 tonnes, will make it possible to diversify feedstock supply (natural gas, ammonia), improve the operational stability of individual units producing and using ammonia, and facilitate ammonia storage in periods of limited supplies of natural gas.

The project's budget was PLN 108,500 thousand. Expenditure incurred totalled PLN 94,535 thousand, of which PLN 20,063 thousand was spent in 2014.

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

The project was completed. The project's budget was PLN 21,620 thousand. Expenditure incurred totalled PLN 12,267 thousand, of which PLN 41 thousand was spent in 2014.

## Grupa Azoty POLICE

Major projects in 2014 included:

- Upgrade of ammonia synthesis reactors,
- Expansion of the post-calcination gas desulfurisation system through the addition of two new reactors,
- Purchase and assembly of the second 63-7 roller mill facility,
- Exhaust gas treatment unit and upgrade of the EC II CHP plant,
- Production of POLIFOSKA® 21 and ammonium sulfate at the DAP facility,
- Upgrade of the ammonia unit,
- Construction of an industrial wastewater neutralisation unit at the titanium white plant,
- Construction of a decomposition sludge neutralisation unit,
- Change of the DA-HF phosphoric acid production method.

The upgrade of ammonia synthesis reactors is intended to ensure a higher synthetic gas reaction rate, which will reduce the process pressure and, as a result, reduce energy consumption by the synthetic gas compressor (by 0,28 GJ per tonne of ammonia produced).

The project's budget is PLN 24,400 thousand. Expenditure incurred so far is PLN 22,016 thousand, of which PLN 10,470 was spent in 2014.

The project commissioning and settlement procedures are pending.

The project involving expansion of the post-calcination gas desulfurisation system through the addition of two new reactors was undertaken to improve the efficiency of the post-calcination gas desulfurisation process. It is one of the initiatives designed to ensure compliance with the more restrictive SO<sub>2</sub> emission requirements of the IED.

The contract with the project contractor was terminated while the work was in progress. After a settlement was reached, a decision was made that the project would be continued by the same contractor.

The project's budget is PLN 8,860 thousand. Expenditure incurred so far is PLN 3,925 thousand, of which PLN 1,881 was spent in 2014. Final completion of the project is planned for 2015.

The main objective of the purchase and assembly of the second 63-7 roller mill is to reduce the costs of repair/maintenance and operation of Raymond mills, in particular the cost of electricity consumption.

All construction and process work related to the start-up of the roller mill was completed. The mill is being tested for proper operation. Completion of the project is planned for Q1 2015.

The project's budget is PLN 5,390 thousand. Expenditure incurred so far is PLN 5,038 thousand, of which PLN 1,379 was spent in 2014.

The aim of the construction of an exhaust gas treatment unit and upgrade the EC II CHP plant is to bring the co-generation operations in line with the SO<sub>2</sub> and NO<sub>x</sub> emissions requirements of the IED (Directive 2010/75/EU).

The project's budget is PLN 163,700 thousand. As part of the project two boilers were revamped. At one boiler the denitration unit was placed in service, while work at the second boiler is nearing completion, with optimisation of the unit's operation having been initiated. The modernisation of the CHP plant's chimney stack was completed. The vendor of technology and flue gas desulfurization equipment was selected, and a building permit was obtained for this part of the project. Final completion of the project is planned for 2016.

Expenditure incurred so far is PLN 109,610 thousand, of which PLN 61,186 thousand was spent in 2014.

The key objective of the project related to production of POLIFOSKA® 21 and ammonium sulfate at the DAP facility is to enable the manufacturing of the products at the DAP facility using waste post-hydrolytic acid.

The project's budget is PLN 11,000 thousand. The project has been completed and the commissioning procedure has been initiated. Expenditure incurred so far is PLN 10,989 thousand, of which PLN 1,600 thousand was spent in 2014.

The key objective of the upgrade of the ammonia unit is to reduce energy consumption of the ammonia production process and to improve the operational reliability of individual process nodes. The upgrade will eliminate bottlenecks in the ammonia unit and increase its daily capacity by 200 tonnes.

The project's budget is PLN 155,600 thousand. Expenditure incurred in 2014 was PLN 6,230 thousand. Final completion of the project is planned for 2016.

The objective of the project involving the construction of an industrial wastewater neutralisation unit at the titanium white plant is to ensure compliance of the sulfate ion emissions to water from the titanium white production plant with the requirements of the IED, which sets the emissions limit at 550kg of SO<sub>4</sub><sup>2-</sup> per tonne of TiO<sub>2</sub>.

The project's budget is PLN 20,000 thousand. The project has been suspended until the legal requirements of the Integrated Permit are announced.

Expenditure incurred so far is PLN 808 thousand, of which PLN 266 was spent in 2014.

The project involving the construction of a decomposition sludge neutralisation unit was undertaken to reduce sulfate ion emissions to water to 550kg of SO<sub>4</sub><sup>2-</sup> per tonne of TiO<sub>2</sub>, as required by the IED. The project involves adaptation of the 1/F1 filter press systems so that they can be used for the separation and washing of clarifier post-reaction solids (called sludge) from the Black Section Division (GP-GPP-PPC).

The project's budget is PLN 7,400 thousand. The project has been suspended; design work has been performed and relevant opinions on the project documentation issued by the company's technical management staff.

Expenditure incurred so far is PLN 400 thousand, of which PLN 313 thousand was spent in 2014.

The project involving change of the DA-HF phosphoric acid production technology was undertaken to raise the efficiency of phosphoric acid production and improve the acid's quality by reducing impurities content.

The project's budget is PLN 67,000 thousand. No expenditure has been incurred yet.

### **Grupa Azoty ZAK Group**

Major projects in 2014 included:

- Stage 1 of construction of a new CHP Plant,
- Upgrade of waste treatment facilities,
- Replacement of a LaMont boiler at the TK IV nitric acid unit,
- Launch of continuous production of OXOPLAST® OT,
- Replacement of the interior of the R-1001 ammonia synthesis reactor.

The 'New CHP Plant at Grupa Azoty ZAK S.A.' project was undertaken to replace the plant's electricity and heat generation capacity, increase its output to satisfy demand for electricity and heat, and implement solutions that ensure compliance with the growing environmental requirements.

The project has progressed according to schedule.

This stage of the project is expected to be completed in 2016.

The project's budget is PLN 375,059 thousand. Expenditure incurred totalled PLN 65,549 thousand, of which PLN 61,353 thousand was spent in 2014.

The upgrade of waste treatment facilities was undertaken to increase work efficiency, reduce arduous working conditions and improve occupational health and safety.

The project's budget was PLN 6,580 thousand. The project was completed and waste treatment facilities were placed in service.

Expenditure incurred totalled PLN 6,243 thousand, of which PLN 841 thousand was spent in 2014.

The replacement of a LaMont boiler at the TK IV nitric acid unit was undertaken to improve operational stability and ensure continuity of nitric acid production at the TK IV unit by replacing the boiler, ammonia oxidation installation and piping.

The project's budget was PLN 7,014 thousand. The project was completed and the boiler was placed in service.

Expenditure incurred totalled PLN 6,993 thousand, of which PLN 3,963 thousand was spent in 2014.

Launch of continuous production of OXOPLAST® OT - the project involves construction of an OT terephthalate unit with an annual capacity of 50 thousand tonnes.

The project's budget is PLN 42,300 thousand. Expenditure incurred so far is PLN 30,627 thousand, of which 28,591 thousand was spent in 2014.

The project has progressed according to schedule. The technical acceptance procedure was completed and the unit was approved for process start-up. Completion of the project is planned for 2015.

Replacement of the interior of the R-1001 ammonia synthesis reactor - the project was undertaken to increase ammonia production capacity, reduce pressure at the synthesis loop and minimise the risk of failures.

The project's budget is PLN 18,500 thousand. Expenditure incurred in 2014 was PLN 3,974 thousand. Completion of the project is planned for 2015.

### **Grupa Azoty SIARKOPOL**

Major projects in 2014 included:

- Construction of sulfur pelletizing unit with Sandvik belts;
- Production wells with productive lives longer than one year - 25 wells.

Construction of sulfur pelletizing unit - the project will allow the company to manufacture a new product - dewatered sulfur pellets.

The project's budget is PLN 35,000 thousand. The project has progressed according to schedule. Final completion of the project is planned for 2015.

Expenditure incurred so far is PLN 16,847 thousand, of which PLN 7,206 thousand was spent in 2014.

Production wells with productive lives longer than one year will make it possible to produce sulfur from deposits.

The project's budget is PLN 24,750 thousand. The project has progressed according to schedule. Final completion of the project is planned for 2018.

Expenditure incurred so far is PLN 7,441 thousand, of which PLN 4,704 thousand was spent in 2014.

#### 4.4. Bank deposits and equity investments

##### Equity investments

###### Establishment of AFRIG Trade SARL

On May 14th 2014, AFRIG Trade SARL of Senegal was established, with 100% of its shares acquired by African Investment Group S.A., a subsidiary of Grupa Azoty POLICE.

###### Acquisition of shares in Unibaltic Agro Sp. z o.o.

On September 11th 2014, Agrochem Puławy Sp. z o.o. (a subsidiary of Grupa Azoty PUŁAWY), acquired 6,793 shares in Unibaltic Agro Sp. z o.o. of Szczecin, with a total par value of PLN 3,396 thousand (for more information see section 1.2 *Changes in the Group's structure* of this Report and the full-year consolidated financial statements of the Grupa Azoty Group for the 12 months ended December 31st 2014, Note 1.2 *Changes in the Group's structure*).

###### Acquisition of shares in Elektrownia Puławy Sp. z o.o.

On December 23rd 2014, Grupa Azoty PUŁAWY acquired from PGE GiEK 11,074 equal and indivisible shares in Elektrownia Puławy Sp. z o.o. for a total price of PLN 16,395,535.91; following the transaction, Grupa Azoty PUŁAWY holds 100% of shares and voting rights in the company.

###### Disposal of shares in Ciech S.A.

In June 2014, Grupa Azoty SIARKOPOL sold 285,300 shares in Ciech S.A. for a total price of PLN 8,844 thousand.

Also in June 2014, Zakłady Azotowe Chorzów S.A. earned PLN 9,434 thousand in proceeds from the sale of 304,320 Ciech shares.

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

##### Bank deposits

In 2014, the Group's short-term funds were primarily held in a current account with PKO Bank Polski S.A., linked under virtual cash-pooling facility with the Group companies' overdraft sub-facilities. The arrangement enables optimisation of interest income and expense throughout the Group.

Those of Group companies which hold free cash with PKO Bank Polski S.A. earn interest on their deposits netted off with the overdraft facilities at 1M WIBOR annualised rate. At the same time, the Group companies which use the overdraft facility held with PKO Bank Polski S.A. incur the same cost of credit at the 1M WIBOR annualised rate on drawn amounts netted off with the free cash.

Moreover, the Grupa Azoty Group companies maintained other free cash in short-term deposits held with reputable banking institutions offering highest interest rates, in particular rates above the 1M WIBOR annualised rate, on amounts netted off as part of the cash-pooling services.

As at December 31st 2014, the Group companies held a total of PLN 557,975 thousand in bank accounts and short-term deposits, of which PLN 122,363 thousand was held in the current account with PKO Bank Polski S.A. linked with the virtual cash pooling.

All the companies' cash as at December 31st 2014 is disclosed in the *full-year consolidated financial statements of the Grupa Azoty Group for the 12 months ended December 31st 2014*, in Note 17 Cash under "Cash and cash equivalents".

The Group earned a total of PLN 9,741 thousand in interest income on fixed-term deposits and from virtual cash pooling of funds deposited in accounts held with PKO BP S.A.

## Equity investments

### Business combination at Grupa Azoty PKCh Sp. z o.o.

On March 14th 2014, a merger was effected between Grupa Azoty Jednostka Ratownictwa Chemicznego Sp. z o.o. (as the surviving company) and Regionalne Laboratorium Oceny Mleka Sp. z o.o. (as the acquired company), which resulted in a PLN 135 thousand increase in non-current assets disclosed in the statement of financial position and recognition of the same amount under profit/(loss) on other operating activities.

### Establishment of a subsidiary, Grupa Azoty AFRICA S.A., by Grupa Azoty POLICE

On May 7th 2014, Grupa Azoty AFRICA S.A. of Senegal (a joint-stock company) was established as a wholly-owned subsidiary of Grupa Azoty POLICE. The company was registered on September 10th 2014 and has been consolidated since that date.

(for more information see section 1.2 *Changes in the Group's structure* of this Report and the full-year consolidated financial statements of the Grupa Azoty Group for the 12 months ended December 31st 2014, Note 1.2 *Changes in the Group's structure*).

### Disposal of Hotel Centralny Sp. z o.o.'s assets

On November 7th 2014, the assets of Hotel Centralny Sp. z o.o. w likwidacji (in liquidation) were sold (the company was placed in liquidation on May 21st 2013). Under the sale agreement, the perpetual usufruct right to the Hotel Centralny's land plot and its building along with equipment were sold on the terms specified in relevant resolutions of the General Meeting. The liquidation proceedings are expected to be completed in 2015 and the post-liquidation estate will then be transferred to the company's sole shareholder - Grupa Azoty ZAK S.A.

### Share capital increase at Agrochem Puławy Sp. z o.o.

Under a resolution of the Extraordinary General Meeting of Agrochem Puławy Sp. z o.o. of Puławy, the share capital of the company was increased twice:

- on June 9th 2014, to PLN 42,533.5 thousand, and
- on September 1st 2014, to PLN 50,000 thousand.

The new shares were acquired by Grupa Azoty PUŁAWY, and paid for with cash.

## Events after the end of the reporting period

### Share capital increase at Agrochem Sp. z o.o.

The Extraordinary General Meeting of Agrochem Sp. z o.o. of Dobre Miasto held on January 22nd 2015 passed a resolution to increase the company's share capital by PLN 19,500 thousand, to PLN 20,000 thousand, through an issue of 39,000 new shares with a par value of PLN 500 per share; the new shares will be paid for with cash.

#### 4.6. Significant agreements

In Current Report No. 2/2014 of January 9th 2014, the Parent's Management Board announced that the value of commercial transactions between the Grupa Azoty Group and the Pfleiderer Group of Germany had reached the materiality threshold.

The value of the transactions made in the 12 months preceding the date of the report totalled PLN 1,060,000 thousand (including the estimated value of products and services contracted for delivery over a five-year period, of PLN 694,200 thousand, VAT-exclusive).

The highest value contract was a contract for the supply of prilled urea 46% and crystalline urea, executed on January 9th 2014 between Grupa Azoty ZAK S.A. (the Parent's subsidiary) and Silekol Sp. z o.o. of Kędzierzyn-Koźle, a member of the Pfleiderer Group. The estimated value of the contract over its term of about five years is approximately PLN 694,200 thousand (exclusive of VAT), which makes it the highest value contract among the agreements/annexes concluded between the Parent and the Pfleiderer Group in the 12-month period.

In Current Report No. 46/2014 of July 15th 2014, the Parent's Management Board announced that the value of commercial transactions between the Grupa Azoty Group and Ampol - Merol Sp. z o.o. of Wąbrzeźno had reached the materiality threshold.

The total value of contracts and commercial transactions in the period from July 14th 2013 to the date of the report had reached PLN 1,143,000 thousand (exclusive of VAT) (including the estimated value of products and services contracted for delivery over a five-year period, of PLN 384,296 thousand, VAT-exclusive).

The contract of the highest value was the annex of July 14th 2014 to the contract of February 6th 2002 for sale of compound fertilizers and urea for resale by the buyer, between Grupa Azoty POLICE, the Parent's subsidiary, and Ampol - Merol Sp. z o.o., reported by Grupa Azoty POLICE in Current Report No. 24/2014 of July 14th 2014.

Under the annex, the term of the contract was extended by 5 years, i.e. for the period from July 1st 2014 to June 30th 2019. The value of the annex throughout its entire term is estimated at PLN 384,295.70 thousand, calculated as the product of the number of years (five years) covered by the contract and the value estimate (given the expected variation in quantities sold and possible price revisions) for the first year of its term.

In Current Report No. 59/2014 of October 8th 2014, the Parent's Management Board announced that the value of commercial transactions between the Grupa Azoty Group and Kronospan Group companies, i.e. Kronospan Chemical Szczecinek Sp. z o.o., Kronospan Mielec Sp. z o.o., Diakol Strazske S.R.O. of Slovakia and Dukol Ostrava S.R.O. of the Czech Republic had reached the materiality threshold.

The total value of contracts and commercial transactions in the period from October 8th 2013 to the date of the report had reached PLN 1,118,000 thousand (exclusive of VAT) (including the estimated value of products and services contracted for delivery over a five-year period, of PLN 347,000 thousand, VAT-exclusive).

The highest value agreement was the urea sale agreement executed on October 8th 2014 by Grupa Azoty POLICE S.A., a subsidiary, and Kronospan Chemical Szczecinek Sp. z o.o., as reported by Grupa Azoty POLICE in Current Report No. 35/2014 of October 8th 2014.

The agreement is effective from October 1st 2014 to December 31st 2018. The value of the agreement is estimated at PLN 347,000 thousand (exclusive of VAT).

In Current Report No. 73/2014 of December 17th 2014, the Parent's Management Board announced that the value of commercial transactions between the Grupa Azoty Group and the Polskie Górnictwo Naftowe i Gazownictwo Group had reached the materiality threshold.

The total value of commercial transactions in the period from December 31st 2013 to the date of the current report had reached PLN 1,425,000 thousand (exclusive of VAT) (including the estimated value of products and services contracted for delivery in 2015, of PLN 894,000 thousand, VAT-exclusive).

The highest value contract was an annex 'Gas fuel volumes contracted in individual months of the contract year and contracted capacity' (Annex) to the high-methane gas purchase agreement concluded with the Polskie Górnictwo Naftowe i Gazownictwo Group on January 14th 1999 for an indefinite term. The annex was signed by Grupa Azoty PUŁAWY on December 17th 2013.

The Annex specifies contractual capacity and gas fuel volumes contracted for 2015, and is valued at PLN 894,000 thousand net, as reported by Grupa Azoty PUŁAWY in Current Report No. 28/2014 of December 17th 2014.

## Events after the end of the reporting period

No such events occurred.

### Value of transactions meets the criteria of significant agreement

Commercial transaction	Subject matter	Period	Current report	Transaction value
Grupa Azoty Group-Pfleiderer Group	Sale of prilled and crystalline urea	Jan 9 2013 Jan 9 2014	No. 2/2014 of Jan 9 2014	1,060,000
Grupa Azoty - Ampol - Merol Sp. z o.o.	Sale of compound fertilizers and urea	Jul 14 2013 Jul 15 2014	No. 46/2014 Jul 15 2014	1,143,000
Grupa Azoty Group - Kronospan Group	Sale of urea	Oct 8 2013 Oct 8 2014	No. 59/2014 Oct 8 2014	1,118,000
Grupa Azoty Group - PGNiG S.A.	Purchase of natural gas	Dec 31 2013 Dec 17 2014	No. 73/2014 Dec 17 2014	1,425,000

## 4.7. Significant related-party transactions

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

## 4.8. Significant R&D achievements

### Parent

In accordance with the Group'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 Parent 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.
- 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 Parent for its caprolactam-modified Tarnamid.

### **Grupa Azoty PUŁAWY Group**

In June 2014, the biological wastewater treatment plant's precipitate dehydration unit was put in service. The facility was constructed under the project 'Optimisation of Drilling Waste Management Methods' carried out as part of the 'Blue Gas - Polish Shale Gas' programme. The Company acts as the Leader of the Consortium responsible for the project, which is co-financed by the National Centre for Research and Development.

The fertilizer segment saw the ending of preliminary work on a project set to enable granulation of ammonium nitrate fertilizers. The investment process is expected to begin in 2015.

On December 23rd 2014, the National Centre for Research and Development announced that it had carried out a factual evaluation of the project 'Support for low-emission agriculture able to adapt to climate change now and within the 2030 and 2050 timeframes' with positive results and recommended that the project be subsidised.

The project is carried out by a consortium which comprises Grupa Azoty PUŁAWY and the following entities:

- Institute of Soil Science and Plant Cultivation - State Research Institute - Project Coordinator,
- Agrophysical Institute - Polish Academy of Sciences,
- Environmental Protection Institute - State Research Institute.

The objective of the three-year project is to enable more efficient resource utilisation by implementing innovative low-carbon agricultural solutions and promoting sustainable application of mineral fertilizers at Polish farms. An analysis will be carried out as part of the project to evaluate the technological and economic efficiency of agricultural practices now and in view of the climate changes forecast to take place by 2030 and 2050.

Also under the project, emissions due to fertilizer applications will be analysed, which will include an evaluation covering fertilizer production and emission intensity of current agricultural practices based on a representative sample of Polish farms, verification of methods for estimating emissions in the case of the most promising mitigation mechanisms (taking into account field measurements), and evaluation of technological and economic efficiency of the practices using the LCA (Low Carbon Agriculture) method, taking into consideration the need to adapt farms to changing climate conditions.

Based on these surveys, certificates will be issued to designate fertilizer applications with a reduced carbon footprint (greenhouse gas emissions). The results will be used to chart Poland's agricultural policy with respect to climate-related activities and improving the methods for estimating agricultural emissions within the National System for Surveying and Estimating Emissions.

In GZNF Fosfory Sp. z o. o., a company of the Grupa Azoty PUŁAWY Group, a technology for recovering phosphates from the Wiślinka phosphogypsum landfill site's leachate was developed, enabling recovery of 100% of the phosphates contained in the leachate by introducing them into the crystalline structures of the compound fertilizers manufactured by the company. In addition to generating positive economics, the technology has significant environmental implications, as it enables faster reclamation of landfill sites, improves the state of the natural environment, and supports sustainable development by reducing consumption of water and phosphorus from natural sources.

Another company of the Grupa Azoty PUŁAWY Group, Zakłady Azotowe Chorzów S.A., developed a technology for producing a magnesium nitrate solution and carried out conceptual work into obtaining fatty acids through fractional distillation of light fractions from residual distilled fatty acids remaining from stearin production.

In addition, conceptual work was carried out into obtaining KNO<sub>3</sub> from waste solutions.

### **Grupa Azoty ZAK S.A.**

In 2014, the company's R&D activities focused on search for new products to expand the product range, as well as potential technical and technological upgrades to reduce energy consumption in the manufacture of key intermediates.

In the OXOPLAST Business Unit, R&D initiatives were focused on new types of non-phthalate plasticizers and potential non-alcohol products of butyraldehyde processing (intermediate product of OXO synthesis). In addition, the start-up of a new unit for producing bis(2-ethylhexyl)-1,4-benzene dicarboxylate (a plasticizer), with an annual capacity of 50 thousand tonnes, commenced. Grupa Azoty ZAK S.A. continued research activities geared towards expanding the offering of non-phthalate plasticizers, including bio-based plasticizers.

In the area of fertilizer production, the company is working on new compound fertilizers and on launching the production of liquid fertilizers.



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

#### **Grupa Azoty POLICE**

The research and development activities conducted by the company comprised:

- laboratory research and quarter-technical analyses,
- industrial-scale tests,
- feasibility studies, expert reports and analyses.

These activities were conducted in partnership with third-party institutions in Poland and abroad. In addition to the new research themes, in 2014 the company continued its work on the projects commenced in 2013.

The following is a list of major completed R&D projects:

- feasibility study into modernisation of the Phosphoric Acid Department evaporation system - upgrade from a single-step to a three-step evaporation process,
- research into the possibility of recovering phosphorous from a phosphogypsum landfill site leachate,
- research into removal of contaminants from phosphoric acid,
- comprehensive research into fertilizer quality enhancement methods - choice of coating agents and evaluation of the impact of cooling air parameters on the quality of fertilizers,
- research into the usability of magnesium sulfate obtained through magnesite neutralisation of hydrolytic acid in the fertilizer segment,
- analysis of the possibility to produce AdBlue solution directly from urea solution discharged from the synthesis unit.

### **4.9. Environmental performance**

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

#### **Sustainable development**

Companies of the Grupa Azoty Group operate in the commodity chemical sector. Aware of its impact, the Grupa Azoty Group places particular emphasis on minimising the effect of its industrial operations on the environment and has engaged in many initiatives with a view to ensuring harmony and balance with the surrounding world.

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

#### PILLARS OF GRUPA AZOTY S.A.'S SUSTAINABLE DEVELOPMENT STRATEGY



#### Legal requirements

In accordance with the Environmental Protection Law, companies of the Grupa Azoty Group are required to adjust the permits they hold to the requirements stipulated in applicable laws.

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

- 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 Parent'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 Tarnowskie Wodociągi 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 Group's business requires compliance with the most exacting safety standards, which minimise the risk of industrial incidents. Relevant solutions applied across the Group ensure appropriate conditions for the manufacture, storage, transport and distribution of substances to meet the natural environment protection requirements. The Group companies operate in the chemical industry and are classified as facilities with a high risk of a serious industrial incident. Being aware of the possible consequences of their operations, the Group companies strive to mitigate their negative environmental impact.

Rescue plans and safety management systems are in place for the Group facilities. Given the nature of its business, the Grupa Azoty Group is subject to the requirements of the Environmental Protection Law, the Water Law, the Waste Act, and other regulations on environmental protection. The legislation imposes certain obligations on Group companies with respect to the production activities, investment projects, site restoration and arrangement for appropriate conditions for the manufacture, storage, transport and distribution of substances. In 2014, the Parent 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 Group companies operate appropriate organisational and technical safety measures, such as CCTV systems, safeguards, and procedures for incident prevention and mitigation of consequences. They maintain well-trained fire services capable of leading effective rescue operations, with additional support from chemical rescue teams and other services.

## REACH

The Grupa Azoty Group companies adhere to the regulations that require thorough testing for hazardous properties of all marketed chemical substances, as well as introduction of usage rules and, in justified cases, usage restrictions and bans.

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

Information on potential hazards related to chemical substances and mixtures is provided to customers in the form of Material Safety Data Sheets (MSDSs). MSDS drafting and updating procedures have been implemented at the Group, along with a system ensuring their full availability to customers. Also, relevant procedures for product labelling (vehicles and packaging) have been put in place, to the extent required by the REACH Regulation, and by Regulation (EC) No. 1272/2008 on classification, labelling and packaging of substances and mixtures (CLP). The procedures reflect the new classification based on research under REACH registration.

In the performance of the provisions of Regulation (EC) No. 1907/2006 – REACH concerning the Registration, Evaluation, Authorisation and Restriction of Chemicals (REACH), in 2014 the Grupa Azoty Group companies submitted to the European Chemicals Agency the registration documentation for new products.

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

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

### **SPOT**

Out of concern for people's safety, property and the environment, the Group companies have 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 Group companies seek 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, at the Parent company, 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<sup>®</sup> production process. The work included research to optimise the Tarnoform<sup>®</sup> 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

In 2014, the Grupa Azoty Group implemented a number of investment projects designed to better protect the natural environment:

### Parent

- Flue gas desulphurisation unit and Flue gas denitration unit
- Upgrade of the interior of ammonia synthesis reactors
- Modernisation of handling stands
- Construction of a dust granulation system for the iron-chromium catalyst together with the sorting and dust removal stand
- Modernisation of the cold water pumping station in the Ammonia Department

### Grupa Azoty PUŁAWY

- Construction of NO<sub>x</sub> reduction units at two boilers at the CHP plant
- Biological Wastewater Treatment Plant's precipitate dehydration unit

### Grupa Azoty ZAK S.A.

- New CHP plant - stage I
- Upgrade of waste treatment facilities
- Filter press for dehydration of the precipitate from the biological wastewater treatment plant - transfer and connection
- Upgrade of the isobutanol and n-butanol rail and road tanker loading bays.

### Grupa Azoty POLICE

- Expansion of the post-calcination gas desulfurisation system through the addition of two new reactors
- Exhaust gas treatment unit and upgrade of the EC II CHP plant
- Construction of an industrial wastewater neutralisation unit at the titanium white plant
- Continuous monitoring of SO<sub>2</sub> and particulate matter emissions
- Construction of a decomposition sludge neutralisation unit
- Construction of barriers to clean up the soil-water environment at the iron sulfate landfill site
- Modernisation of the post-calcination gas distribution system

### Grupa Azoty SIARKOPOL

- Production control rooms
- Liquid sulfur loading at Osiek
- Liquid sulfur unloading at Dobrów

## Emissions

Companies of the Grupa Azoty Group have implemented a range of environmental protection solutions, which help curb 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 participants of the emissions trading system, the companies review their annual reports and obtain rights on an annual basis.

## Noise

As production processes tend to generate noise, the Group companies select equipment with appropriate acoustic parameters for every new unit already at the design stage. 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 Grupa Azoty Group monitors its noise emissions, and measures them in accordance with the requirements set out in the integrated permits.

#### 4.10. Significant events

##### **Letter of intent signed with KGHM Polska Miedź S.A.**

On January 16th 2014, the Management Boards of the Parent and KGHM Polska Miedź S.A. of Lubin signed a letter of intent outlining general terms on which the parties may collaborate in the areas of phosphogypsum processing, acquisition of potassium chloride 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 implementation of the Parent's strategy. In order to maintain production continuity and maximise utilisation of its production capacities, the Parent seeks to secure strategic feedstock supplies from new or alternative sources, also by forming equity relationships with suppliers.

A similar agreement was signed on January 10th 2014 by the Management Boards of Grupa Azoty PUŁAWY, Gdańskie Zakłady Nawozów Fosforowych Fosfory Sp. z o.o. and KGHM Polska Miedź S.A. It defines the objectives of a joint-venture project in the exploration for, appraisal and production of potassium chloride, phosphates, halite and non-ferrous metals. The agreement marks another step in the cooperation initiated with the letter of intent between Gdańskie Zakłady Nawozów Fosforowych Fosfory Sp. z o.o. and KGHM Polska Miedź S.A. on the joint execution of projects in the exploration for and appraisal of mineral deposits, including potassium chloride, and mining projects involving the development of existing mineral deposits, in Poland and abroad, as well as on the management of recyclable materials (waste) in the recovery of critical metals (including rare earth metals).

##### **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 Parent 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 Parent 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**

In its continued work on strategic planning, commenced in 2013 with the adoption of the Strategy of the Grupa Azoty Group for 2013-2020, on August 14th 2014 the Group's Management Board published the key assumptions of the 'Strategy of the Grupa Azoty Group for 2014-2020. Operationalisation' (for more information, see section 6.3. Growth directions).

### **Abandonment of plan to acquire shares in Zakłady Chemiczne Organika-Sarzyna S.A.**

The Management Board of Grupa Azoty PUŁAWY announced that on November 5th 2014 it resolved to abandon the plan to acquire shares in Zakłady Chemiczne Organika-Sarzyna S.A. from CIECH S.A. The resolution was adopted in connection with Ciech S.A.'s publication of a current report concerning the approval of the Ciech Group's strategy for 2014-2019 and the information published in CIECH S.A.'s official web page. Pursuant to those disclosures, the Ciech Group's organic chemistry segment will be developed based on Zakłady Chemiczne Organika-Sarzyna S.A., which will remain within the Ciech Group.

### **Revenue from generation of ERUs**

In 2014, companies of the Grupa Azoty Group generated no income from sale of ERUs.

In 2014, Grupa Azoty PUŁAWY continued its involvement in the procedure aimed at resolution of the dispute concerning payment for delivered ERUs before ICC International Court of Arbitration in London. On November 12th 2014, a mediation involving Grupa Azoty PUŁAWY and Solvay Energy Services SAS was held in London with a view to ending the dispute (the mediation was held within the framework of CEDR - Centre for Effective Dispute Resolution). The mediation did not lead to an agreement, but in the course of further work preliminary terms and conditions of a settlement were drafted.

### **Verification of CO<sub>2</sub> emissions**

Audits were carried out in all Grupa Azoty Group companies in early 2014 to verify the level of CO<sub>2</sub> emissions in 2013. The audits confirmed the calculated emission levels. To fulfil the statutory obligation, the verified CO<sub>2</sub> 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.

All major companies of the Grupa Azoty Group plan to carry out audits in Q1 2015, to verify the 2014 CO<sub>2</sub> 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.

Actual emissions are roughly similar to the planned emission volumes. In line with the adopted strategy, in 2014 the companies purchased reduction units required to settle the 2014 emissions and will have performed the planned contracts by the end of April 2015.

### **Certificates of origin for 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. Grupa Azoty PUŁAWY decided not to pursue its claims in connection with non-allocation of certificates for the second half of 2012.

In view of the arrangement of their operating units and installations and optimised generation of electricity at their CHP plants, neither Grupa Azoty PUŁAWY nor Grupa Azoty POLICE obtained the required volume of PES which was the indispensable condition to seek the allocation of certificates of origin for 2014.

The Parent 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 Parent 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 between the Grupa Azoty Group and PKO BP S.A.**

On February 6th 2015, the Group and PKO BP S.A. executed a strategic cooperation agreement whereby the bank 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 Grupa Azoty Group's operations and financial performance

#### Impairment loss at subsidiary Grupa Azoty ZAK S.A.

On December 18th 2014, the Management Board of subsidiary Grupa Azoty ZAK S.A. passed a resolution approving the recognition of an impairment loss of PLN 40m as at December 31st 2014. The impairment loss concerned property, plant and equipment comprising the phthalic anhydride unit at the Oxoplast Business Unit, and was recognised in relation to the permanent decommissioning of the unit.

The impairment recognition was a non-recurring event. It will have an effect on the separate and consolidated financial statements of subsidiary Grupa Azoty ZAK S.A. and the consolidated financial statements of the Parent for 2014.

The effect of the impairment recognition on the consolidated performance of the Parent is as follows:

- effect on EBIT: PLN 40m
- effect on net profit: PLN 32m.

#### Volatility of exchange rates

The Group's 2014 financial performance was affected by 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 Group'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 Group 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 Grupa Azoty Group's hedging tools were EUR and USD swap forwards, reflecting its planned net exposure in both currencies.

The Grupa Azoty Group made a PLN (346) thousand loss on hedging transactions realised in the twelve months of 2014, and posted a PLN (1,918) thousand loss on revaluation of the hedges.

On non-hedged net currency exposure, the Group reported a PLN 2,708 thousand foreign exchange gain, and a PLN 7,675 thousand surplus of foreign-currency income over expenses.

In total, during the twelve months of 2014, the Group's total result on foreign exchange differences and currency derivative transactions (taking into account revaluation as at the end of the reporting period) was PLN 8,119 thousand (including PLN 2,361 thousand on realised foreign exchange differences and hedging transactions and PLN 5,758 thousand on unrealised items).

In the twelve months of 2014, the Group posted a PLN (46) thousand loss on valuation and settlement of an interest rate hedging collar transaction for a EUR-denominated loan (the transaction was settled and closed on June 27th 2014, and the loan repaid).

The Group also reported a PLN 6,220 thousand gain on valuation and settlement of futures contracts hedging the price of emission allowances.

## 5.2. Market overview

In 2014, the global economy continued the slow pace of its recovery from recession, and demand for chemicals in sectors which typically sensitive to GDP growth, such as construction, automotive industry, household appliances and electronics, remained subdued. Prices of goods along the supply chain showed slow growth, following weak demand and good availability of products on the market. In August 2014, crude oil prices began their continuous and steep slide, pulling down prices of petroleum products such as benzene or propylene. Consequently, the prices further along the supply chain started to decline, with the decrease finally manifesting itself in prices of the Group's final products, such plastics and oxo chemicals.

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.

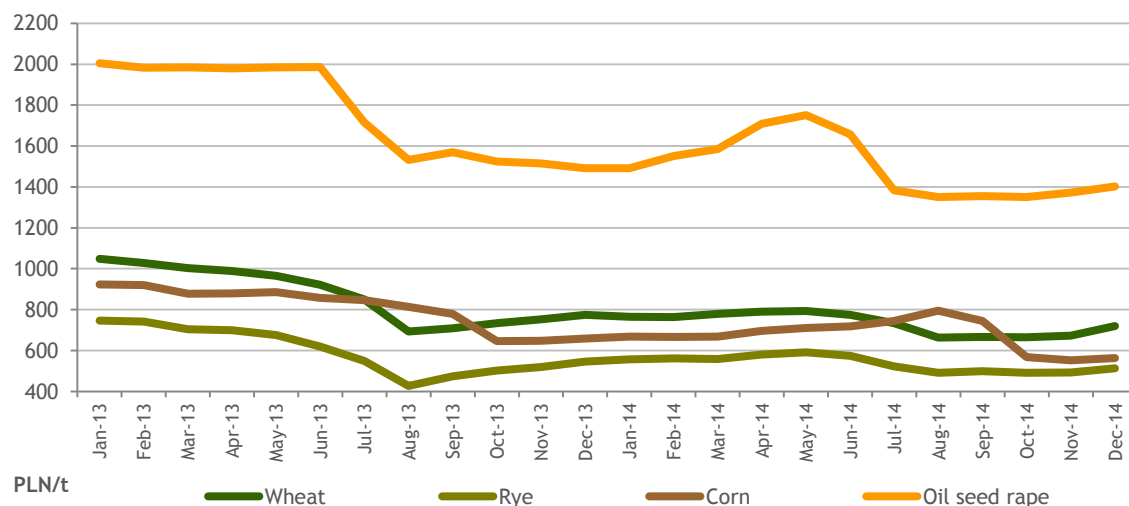
### Agro Fertilizers

#### Economic conditions in agriculture

Exceptionally good weather conditions resulted in another season of high grain yields, contributing to higher grain stocks around the globe, in Europe and in Poland. That, combined with a strong dollar which limited exports to the US and caused prices to slump in the US market, contributed to a decline in prices of agricultural produce.

In Poland, this was mitigated by exports and the system of direct subsidies, which in are distributed by the Agency for Restructuring and Modernisation of Agriculture (subsidy payments by the Agency began in December 2014). The 2014 subsidies, which are to be distributed to 1,350 thousand Polish farmers, totalled PLN 14.2bn (2013: PLN 14.91bn). Apart from the direct subsidies, there are other sources of subsidising the sector available under a number agriculture support programmes operated as part of the EU Common Agricultural Policy.

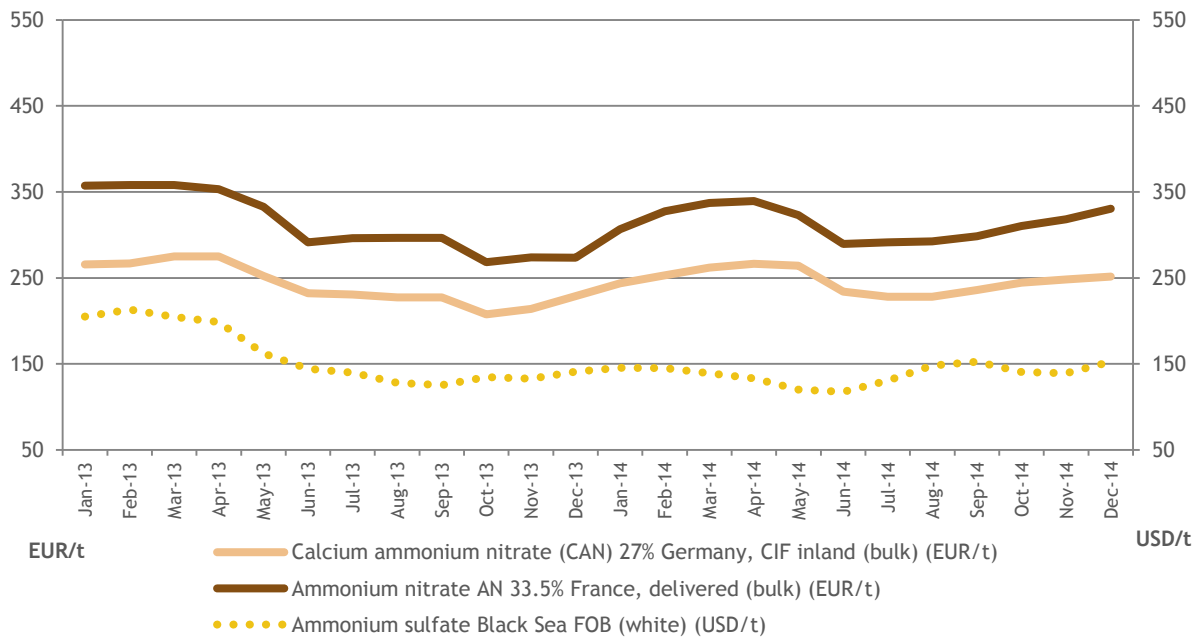
#### Oil seed rape, wheat, rye and corn prices



Source: Ministry of Agriculture and Rural Development

## Fertilizer market

### CAN, AN and AS prices



Source: Argus FMB

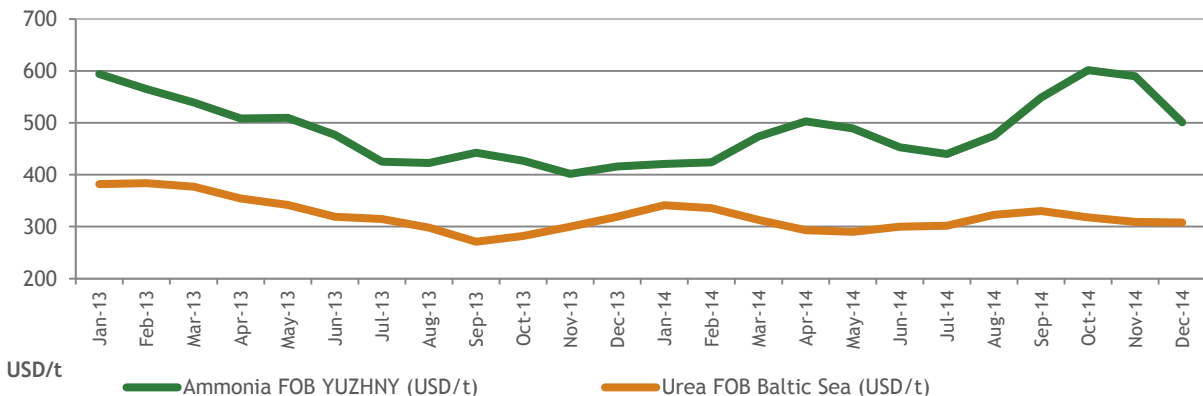
### Ammonium nitrate/calcium ammonium nitrate (CAN)

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



Source: ICIS, Argus FMB

## Ammonia

In 2014, both supply and demand on the ammonia market remained low. The greater demand for ammonia first in the spring and then 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.

2014 saw significant and rapid changes in ammonia prices, but ultimately 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.

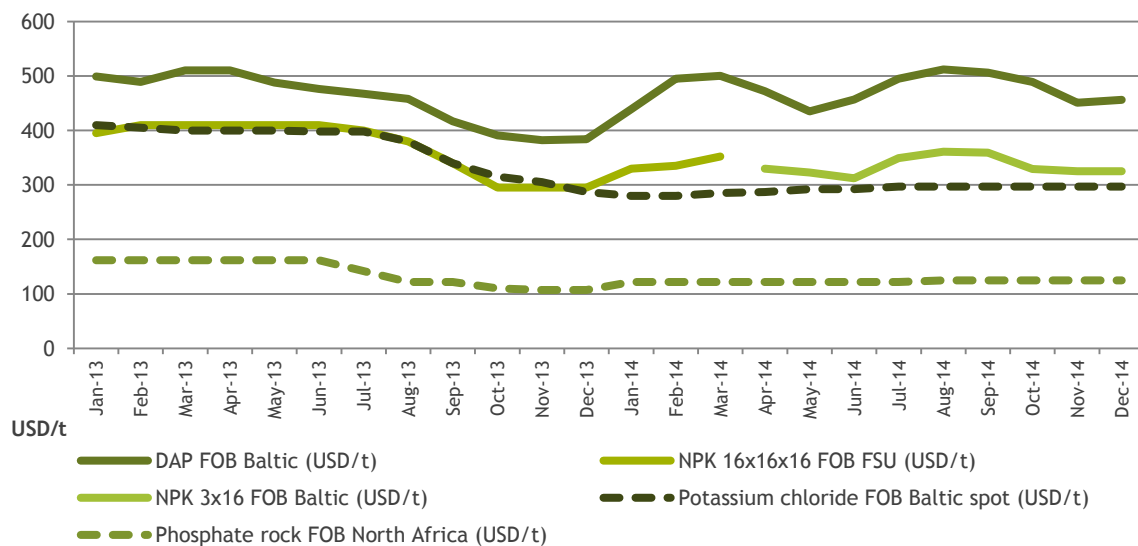
## Urea

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.

## UAN

The average UAN price was EUR 185/t in 2014, down approximately 5% on 2013. UAN prices were on a downward trend practically throughout the year, and the price per unit of nitrogen contained in the fertilizer continued as one of the most attractive to buyers among all the nitrogen fertilizers. Other important developments included increasing interest in the European markets among US and Russian producers, but also higher UAN exports from China (mainly to the USA, Australia and South America).

## Prices of NPK, DAP, potassium chloride and phosphate rock



Sources: Argus FMB, WFM, FERTECON

### **NPK fertilizers**

In the domestic NPK market, the beginning of 2014 was marked by limited demand as farmers held considerable fertilizer stocks and the weather conditions were unfavourable. A slight improvement in demand was seen as time came for spring farming. In the second half of August and the first half of September, there was a significant seasonal increase in the volume of NPK fertilizers purchased in connection with the anticipated autumn fertilizer applications. Given low prices of agricultural produce and lower farming incomes, farmers were forced to look for savings, so they opted for cheaper imported substitutes or lower concentration fertilizers from other Polish manufacturers (Luvena, Siarkopol, Fosfan), which are cheaper per tonne of fertilizer although have a lower content of pure nutritional elements.

After the autumn season, low prices of agricultural crops kept farmers from purchasing NPK fertilizers. The leading NPK fertilizer manufacturers in Western Europe maintained the prices of their standard products. The only and minor price reductions were seen in October, and were intended to encourage customers to buy and store fertilizers.

### **DAP fertilizers**

Prices of DAP fertilizers remained high throughout 2014. Compared with the previous year, prices rose, from the average annual level of USD 456/t in 2013 to USD 476/t (FOB Baltic). The growing trend in demand for DAP, which set in late in 2013, continued into the first quarter of 2014. In the following quarter, many manufacturers reduced their output due to feedstock-related factors, for technical reasons or due to adverse weather conditions, as a result of which prices fell. Trends in DAP demand and prices varied on the global markets, depending on the region. Continuing strong demand in the Asian markets (India, Pakistan, Bangladesh, Vietnam) and in the internal market in China, was driving DAP prices up in those markets. Chinese manufacturers implemented the government programme to build up stocks of DAP for autumn. In South America, in the US and in Europe demand for DAP remained feeble mainly on the back of decreasing agricultural produce prices in the global markets. In Brazil, low prices of crops (soya, corn) and severe drought resulted in a dramatic decline of purchases of phosphate fertilizers, including DAP. Limited DAP supply in the fourth quarter of the year and the slight increase in prices of agricultural produce stabilised the DAP prices on the global markets and set them on a slow upward trend.

### **Potassium chloride (KCl)**

Prices of potassium chloride went sharply down year on year in 2014; the average annual price decreased from USD 370/tonne in 2013 to USD 292/tonne in 2014 (FOB Baltic spot).

At the beginning of 2014, large contracts for supplies of potassium chloride to China were negotiated, and the prices agreed under those contracts marked a benchmark for customers from markets such as India, Malaysia, the Philippines, Indonesia or Brazil. Low prices of agricultural produce caused demand for potassium chloride in the European markets to remain flat.

The potassium chloride market continues to be oversupplied. The estimated global excess of KCl production capacity over demand for the product is currently about 8m tonnes, and even suspension of KCl extraction by Uralkali in November hardly changed the situation (the capacity excess contracted by 2m tonnes).

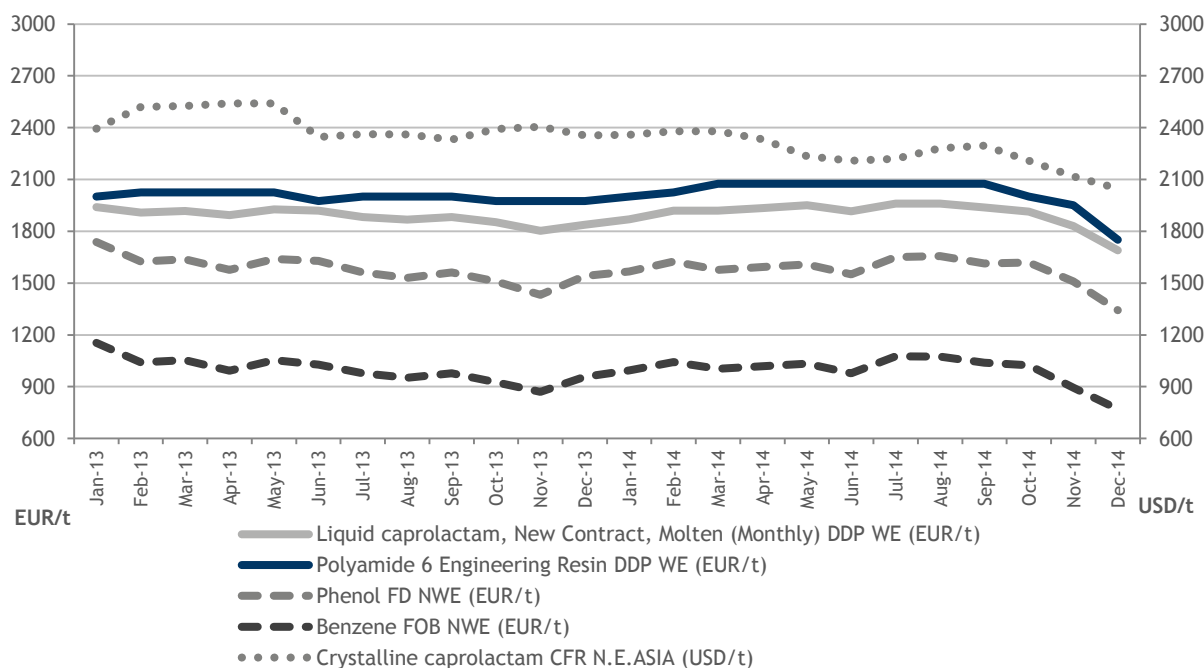
### **Phosphate rock**

Following the price modifications at the beginning of 2014, the global market for phosphate rock saw practically no major changes until the end of the year. The only exception were minor increases in prices of Moroccan phosphate rock in August, when OCP Morocco raised the price of its phosphate rock from USD 115-130/tonne to USD 120-130/tonne (FOB Morocco). In November there was a decrease in quoted prices of Togolese phosphate rock, which fell from USD 130-135/tonne to USD 120-125/tonne (FOB Togo).

Generally, prices of phosphate rock in 2014 were lower than a year earlier; the average annual price fell from USD 140/tonne in 2013 to USD 123/tonne in 2014 (FOB North Africa).

## 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. 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.

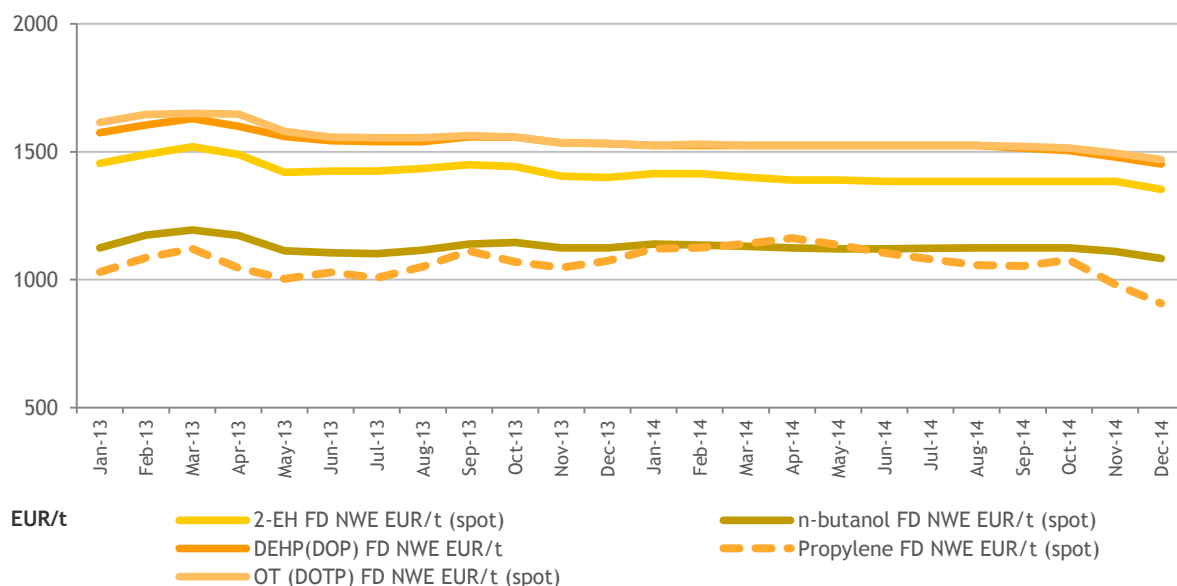
Year on year, a slight drop in benzene prices was observed: the average price in 2014 (FOB NWE) was EUR 995/tonne, compared with EUR 998/tonne in the previous year. The drop in oil prices in August 2014 brought about, although with some delay, a significant decline in benzene prices. Moreover, benzene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

## Chemicals

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



Source: ICIS.

## Propylene

Despite some downward movements seen in the second half of the year, there was a 2.13% increase in average propylene prices year on year, from EUR 1,057/tonne (FD NWE) in 2013 to EUR 1,079/tonne in 2014. The significant declines in propylene prices in the second half of the year did not fully offset the increases seen in early 2014.

In the opening months of 2014, overhauls and stoppages at a number of production facilities resulted in a shortage of propylene on the market. With cracker capacities coming back on stream, gradual improvement of the demand and supply situation could be seen from May onwards. Propylene availability also improved on the back of depressed demand in the summer months. Towards the end of the year, following a decline in propylene prices, demand increased and remained high almost until the end of 2014.

## Oxo alcohols and plasticizers

In 2014, prices of OXO alcohols and plasticizers (USD, FD NWE) were lower than in the previous year, as presented in the table below:

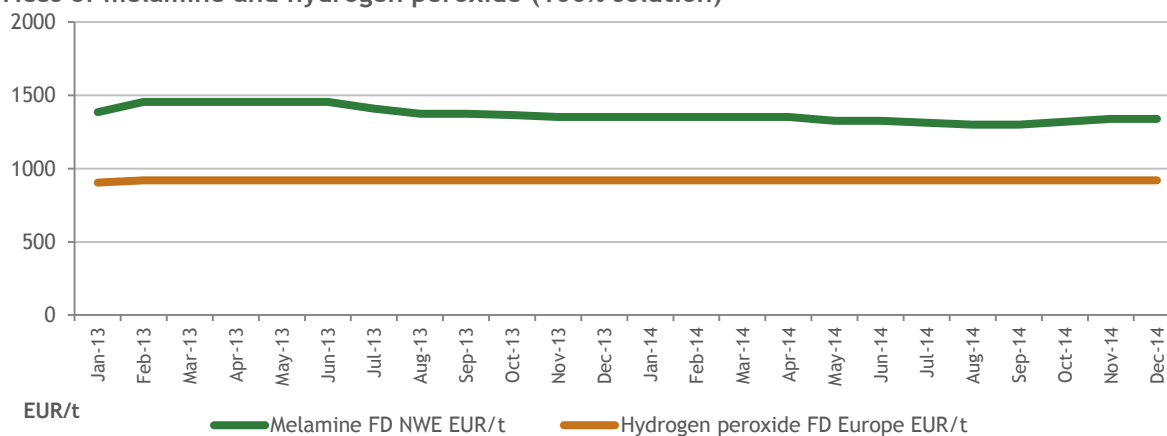
	2-EH	n-butanol	DOP	DOTP
2013	1,446	1,137	1,565	1,583
2014	1,390 (-3.92) %	1,122 (-1.3) %	1,512 (-3.33) %	1,517 (-4.16) %

Source: ICIS.

In 2014, the demand on Europe's target markets for OXO alcohols remained broadly flat year on year. The situation on the plasticizer market was different. Last year saw demand for DEHP decline sharply in favour of its substitute, Oxoviflex (DOTP), which is becoming a key compound in the PCV industry. The market for OXO alcohols and plasticizers was disrupted by imports from Russia, Turkey and Asia, while the export capacities of European countries were periodically limited by unfavourable foreign exchange rates.

Prices of OXO alcohols and plasticizers were negatively affected by declining prices of petrochemical feedstocks, which brought downward pressures in H2 2014.

#### Prices of melamine and hydrogen peroxide (100% solution)



Source: ICIS, Global Bleaching Chemicals.

#### Melamine

In 2014, contract prices of melamine on the European market decreased EUR 77/tonne (down 5.5%) year on year. Following an increase in prices in Q4 2014, the European melamine market stabilised in a similar fashion as in the holiday season.

In terms of supply and demand, the European market in 2014 was stable. Abundant quantities of the product were supplied to the market, both by European manufacturers and from import channels.

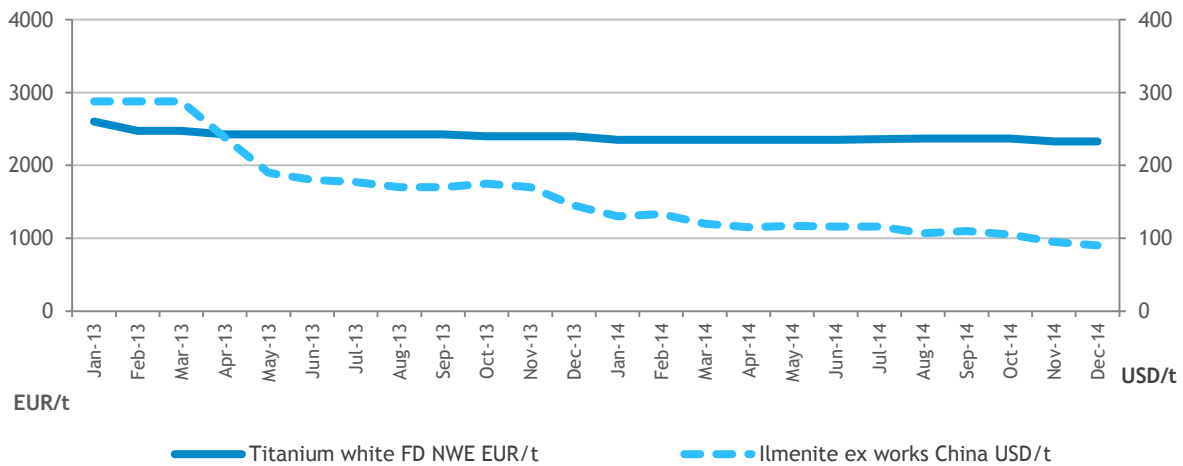
#### Hydrogen peroxide

In 2014, the European market of hydrogen peroxide also remained stable. Year on year, a slight drop in prices was observed: the average price in 2014 (FD Europe) was EUR 919/tonne, compared with EUR 920/tonne in the previous year.

In 2014, an increase in demand for hydrogen peroxide was recorded in the sector of paper pulp production and other applications (chemical, mining and environmental protection industries), in particular in Northern Europe. Utilisation of production capacities in Europe reached 90%.



### Market prices of titanium white and ilmenite



Sources: ICIS, CCM.

### Titanium white

In 2014, global titanium white prices remained at low but stable levels.

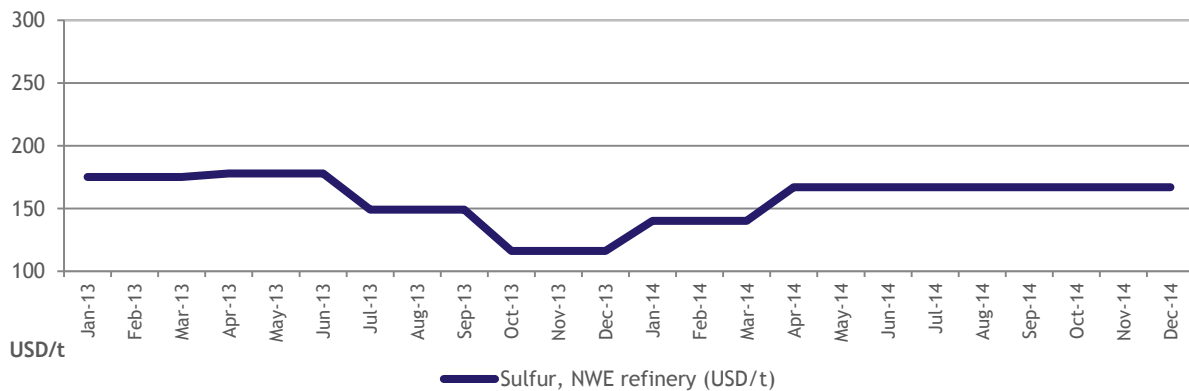
Titanium white prices decreased by ca. 4% year on year, with the average price in 2014 (FD NWE) down from EUR 2,442/tonne in 2013 to EUR 2,353/tonne in 2014.

One of the largest sources of demand – the paper industry – has been recording declining sales for many years. Lower demand was also recorded for another application, namely the coating sector, which generates 60% of total demand for TiO<sub>2</sub>. With the prevailing oversupply, there were no availability constraints on the titanium white market.

### Ilmenite and titanium slag

Average ilmenite prices declined throughout 2014, from approximately EUR 207/tonne (Ex Works China) in 2013, to USD 113/tonne in 2014, falling to their lowest in December - at USD 90/tonne. The decline in the price of raw materials for production of titanium white was driven by low demand for products in titanium white application areas.

### 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 decreased 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.

## Energy Segment

### 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 10.06 °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 CO<sub>2</sub> 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.

### 5.3. Key financial and economic data

#### 5.3.1. Consolidated data

For 2014, Grupa Azoty posted a positive EBITDA of PLN 822,405 thousand and a net profit of PLN 265,055 thousand.

Year on year, these figures grew by PLN 93,544 thousand and PLN (443,513) thousand, respectively. The table below compares the key items in the consolidated statement of profit and loss for 2014 and 2013.

\*2013 financial information was restated for the final settlement of acquisition of African Investment Group S.A. by Grupa Azoty POLICE, as presented in *Note 2.3 to the annual consolidated financial statements* of the Grupa Azoty Group for the twelve months ended December 31st 2014.

#### Consolidated data

Item	2014	2013 * restated	change	% change
Revenue	9,898,476	9,821,023	77,453	0.8
Cost of sales	(8,231,565)	(8,441,783)	210,218	(2.5)
<b>Gross profit</b>	<b>1,666,911</b>	<b>1,379,240</b>	<b>287,671</b>	<b>20.9</b>
Selling and distribution expenses	(581,145)	(447,750)	(133,395)	29.8
Administrative expenses	(739,977)	(707,766)	(32,211)	4.6
<b>Profit from sales</b>	<b>345,789</b>	<b>223,724</b>	<b>122,065</b>	<b>54.6</b>
Other operating expenses - net	(43,559)	(42,986)	(573)	1.3
<b>EBIT</b>	<b>302,230</b>	<b>180,738</b>	<b>121,492</b>	<b>67.2</b>
Gain from a bargain purchase	-	517,125	(517,125)	x
<b>Operating profit</b>	<b>302,230</b>	<b>697,863</b>	<b>(395,633)</b>	<b>(56.7)</b>
Net finance income/(costs)	(12,631)	17,536	(30,167)	(172.0)
Share of profit of equity-accounted associates	13,940	12,361	1,579	12.8
<b>Profit before tax</b>	<b>303,539</b>	<b>727,760</b>	<b>(424,221)</b>	<b>(58.3)</b>
Tax expense	(37,731)	(18,439)	(19,292)	104.6
<b>Net profit from continuing operations</b>	<b>265,808</b>	<b>709,321</b>	<b>(443,513)</b>	<b>(62.5)</b>
Loss from discontinued operations	(753)	(554)	(199)	35.9
<b>Net profit</b>	<b>265,055</b>	<b>708,767</b>	<b>(443,712)</b>	<b>(62.6)</b>
EBIT	302,230	180,738	121,492	67.2
Depreciation and amortisation	520,175	548,123	(27,948)	(5.1)
<b>EBITDA</b>	<b>822,405</b>	<b>728,861</b>	<b>93,544</b>	<b>12.8</b>

Source: Company data.

Sales revenue did not change significantly year on year. However, due to lower cost of sales (by 2.5%), gross profit on sales posted by the Grupa Azoty Group was higher than in the previous year by PLN 287,671 thousand. This amount was reduced by the cost of sales and administrative expenses, but it was still higher by PLN 122,065 thousand than in the previous year.

In 2014, the balance of other income and other expenses was negative, at PLN (43,559) thousand, which adversely affected EBIT; however, it was higher relative to the previous year by 67.2%.

While analysing the operating profit for 2014, which was lower than in 2013, it should be remembered that the result for 2013 was affected by the bargain purchase of shares in Grupa Azoty PUŁAWY, Grupa Azoty SIARKOPOL and AIG S.A. of Senegal (PLN 517,125 thousand).

The Group posted a net loss on financing activities.

### 5.3.2. Segments' results

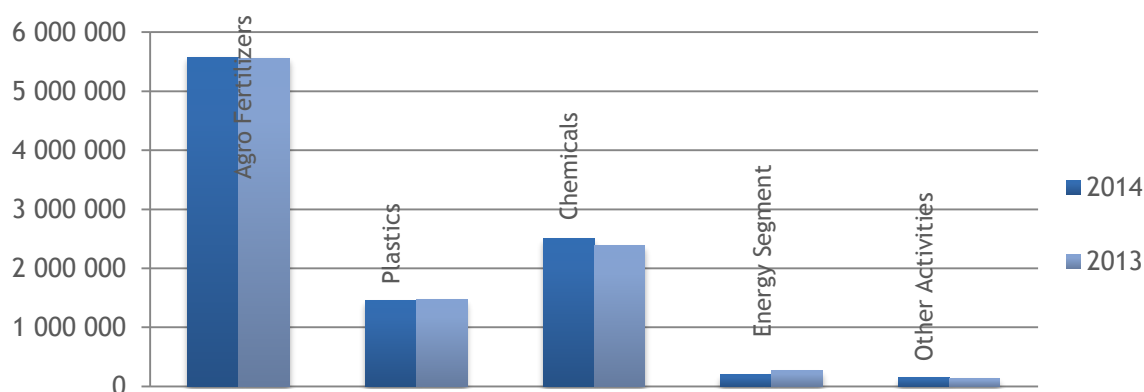
#### EBIT by segment

	Agro Fertilizers	Plastics	Chemicals	Energy	Other Activities
Revenue	5,580,374	1,460,155	2,505,638	194,621	157,688
Share [%]	56.4	14.7	25.3	2.0	1.6
Net profit on sales	434,451	(91,661)	(12,401)	4,190	11,210
EBIT	435,420	(81,416)	(55,332)	5,944	(2,386)

Source: Company data.

Sales of the Grupa Azoty Group's products in 2014 were determined primarily by the market situation in the Agro Fertilizers, Chemicals and Plastics segments. Sales revenue in the segments did not change significantly year on year. The segments with year-on-year revenue increases included: Other Activities (13.8%), Chemicals (5%), and Agro Fertilizers (0.3%). The other segments recorded revenue declines: by 0.4% in the Plastics segment, and by 26.7% in the Power segment. Shares of the individual segments in the overall revenue structure remained relatively unchanged compared with 2013.

#### Revenue by segment



Source: Company data.

#### Agro Fertilizers

In 2014, revenue in the Agro Fertilizers segment was PLN 5,580,374 thousand and accounted for 56.4% of the Group's total revenue. The amount of the segment's revenue and its share in the Group's total revenue were close to those seen in 2013.

The segment generated positive EBIT.

Most of the revenue was derived from the domestic market, which accounted for 67% of the total fertilizer sales.

## Plastics

Revenue in the Plastics segment was PLN 1,460,155 thousand and accounted for 14.7% of the Group's total revenue. The revenue did not change significantly compared with the previous year (slight decline by ca. 0.4%). More than 90% of the segment's revenue was derived from sales on foreign markets.

A significant improvement of the segment's EBIT was seen in 2014 relative to 2013 (negative result of PLN (151.1)m was reduced to PLN (81.4)m). The improvement is a consequence of intensive work on optimising the costs and enhance the revenue structure by balancing product portfolio towards more value added products. This process will be continued in the coming years.

## Chemicals

Revenue in this segment reached PLN 2,505,638 thousand, up 5.4%, and represented 25.3% of the Group's total revenue. The costs incurred by the segment, higher than the segment's revenue, resulted in a negative EBIT for 2014.

## Energy Segment

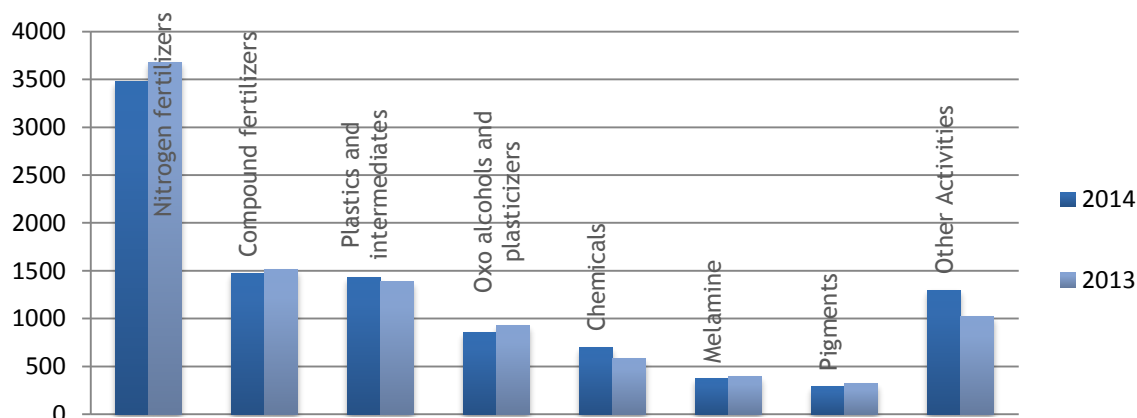
In 2014, revenue in the Energy segment was PLN 194,621 thousand and accounted for 2.0% of the Group's total revenue. Despite lower revenue compared with the previous year, in 2014 the Energy segment generated a positive EBIT.

## Other Activities

In 2014, despite a year-on-year increase in the Other Activities segment's revenue by 13.8%, the high costs incurred by the segment resulted in a negative EBIT.

## Sales by product group

### Revenue by product group



Source: Company data.

The key revenue drivers in the Grupa Azoty Group's sales are nitrogen fertilizers and compound fertilizers.

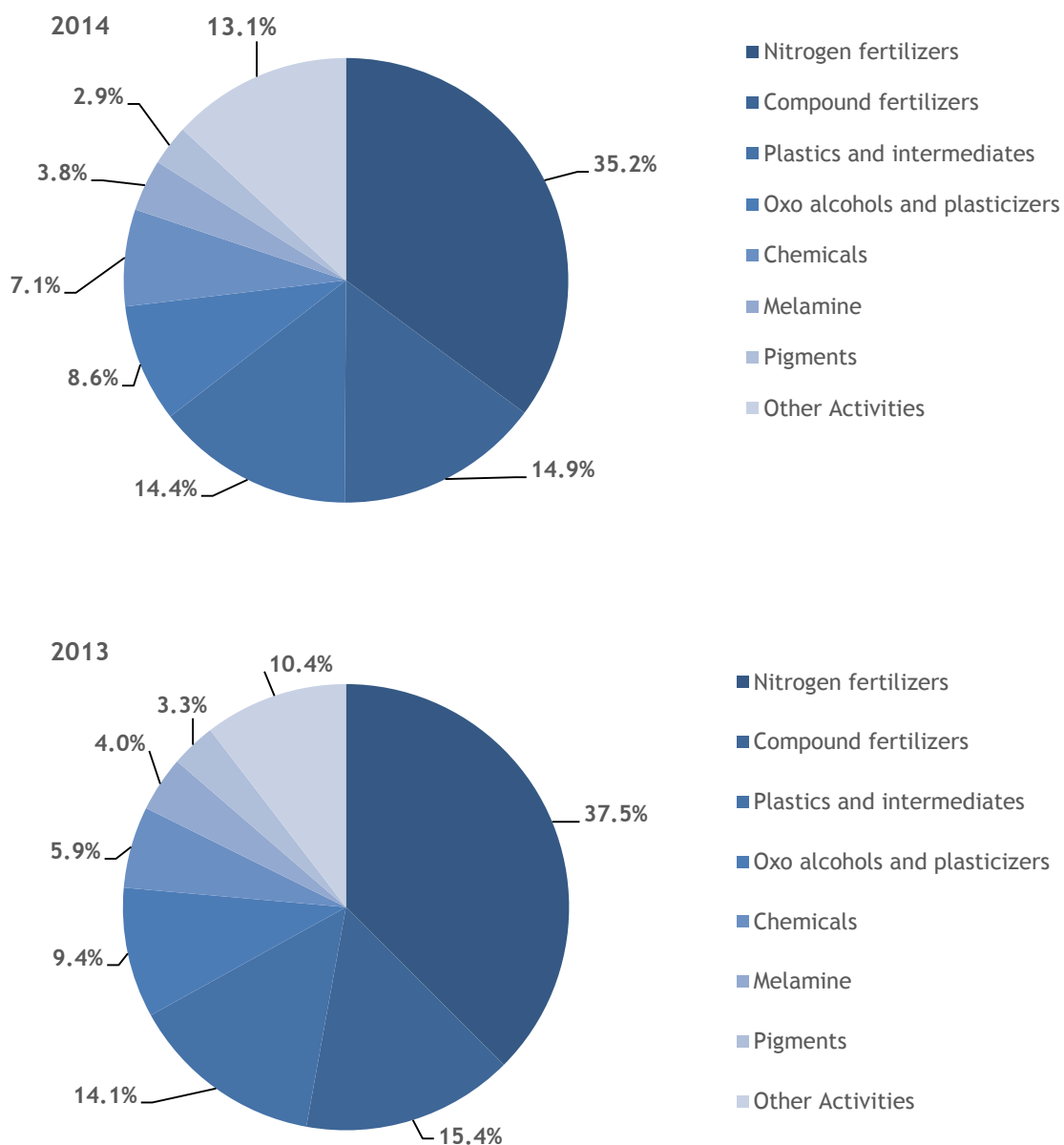
Year on year, revenue from sales of nitrogen and compound fertilizers dropped.

Lower prices of basic agricultural produce in H2 2014 adversely affected the profitability of agricultural production in Poland and the European Union, thus fertilizer producers offered lower prices than a year ago to encourage customers to buy their products.

Apart from fertilizers, the share of plastics, oxo alcohols, plasticizers and other products in the revenue is also significant.

Revenue from the sale of oxo alcohols and plasticizers declined, while sales of plastics and intermediates, chemicals and other products increased.

### Revenue by product group



Source: Company data.

Compared with 2013, the share of nitrogen and compound fertilizers in revenue dropped (respectively, from 37.5% to 35.2%, and from 15.4% to 14.9%). Lower shares in revenue were also reported for oxo alcohols and plasticizers (down from 9.4% to 8.6%). The share in revenue increased for plastics and intermediates (from 14.1% to 14.4%), chemicals (from 5.9% to 7.1%) and other products (from 10.4% to 13.1%).

### 5.3.3. Operating expenses

In 2014, operating expenses were PLN 9,457,859 thousand, up by PLN 21,905 thousand year on year. A considerable increase was recorded in services (up by PLN 163,280 thousand) and salaries and wages, including overheads, and other benefits (up by PLN 158,680 thousand). Concurrently, raw materials and consumables used declined (by PLN 368,450 thousand). The changes are attributable to the adopted procurement optimisation strategy leveraging the scale of Grupa Azoty as a major consumer.

#### Operating expenses by nature

	2014	2013 * restated	change	% change
Depreciation and amortisation	520,175	548,123	(27,948)	(5.1)
Raw material and consumables used	6,259,092	6,627,542	(368,450)	(5.6)
Services	1,038,684	875,404	163,280	18.7
Salaries and wages, including overheads, and other benefits	1,214,488	1,055,808	158,680	15.0
Taxes and charges	299,088	230,699	68,389	29.6
Other costs by type of expense	126,332	98,378	27,954	28.4
<b>Total</b>	<b>9,457,859</b>	<b>9,435,954</b>	<b>21,905</b>	<b>0.2</b>

Source: Company data.

#### Raw material and consumables used

In 2014, the cost of raw material and consumables used was 5.6% lower year on year. Among other factors, this decrease was attributable to lower prices of basic commodities.

#### Raw materials and consumables used at the Grupa Azoty Group

	2014	2013 * restated	change	% change
Parent	937,404	1,007,121	(69,717)	(6.9)
Grupa Azoty ZAK Group				
Grupa Azoty ZAK Group	1,470,917	1,474,390	(3,473)	(0.2)
Grupa Azoty ZAK Group				
Grupa Azoty POLICE	1,438,138	1,729,061	(290,923)	(16.8)
Grupa Azoty ZAK Group				
Grupa Azoty PUŁAWY Group	2,199,408	2,236,427	(37,019)	(1.7)
Other Group companies	213,225	180,543	32,682	18.1
<b>Total</b>	<b>6,259,092</b>	<b>6,627,542</b>	<b>(368,450)</b>	<b>(5.6)</b>

Source: Company data.

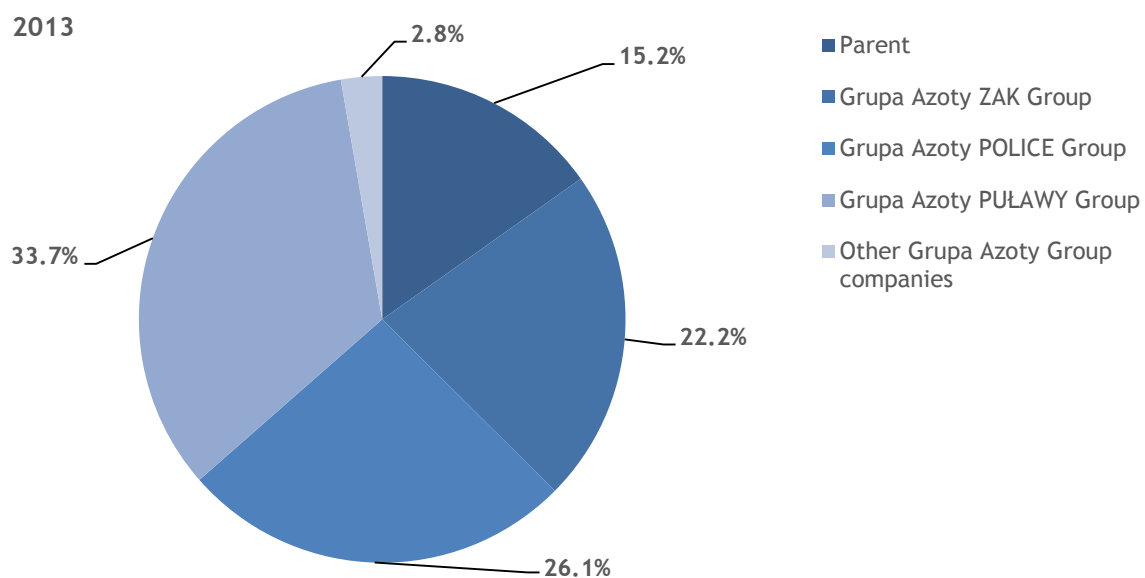
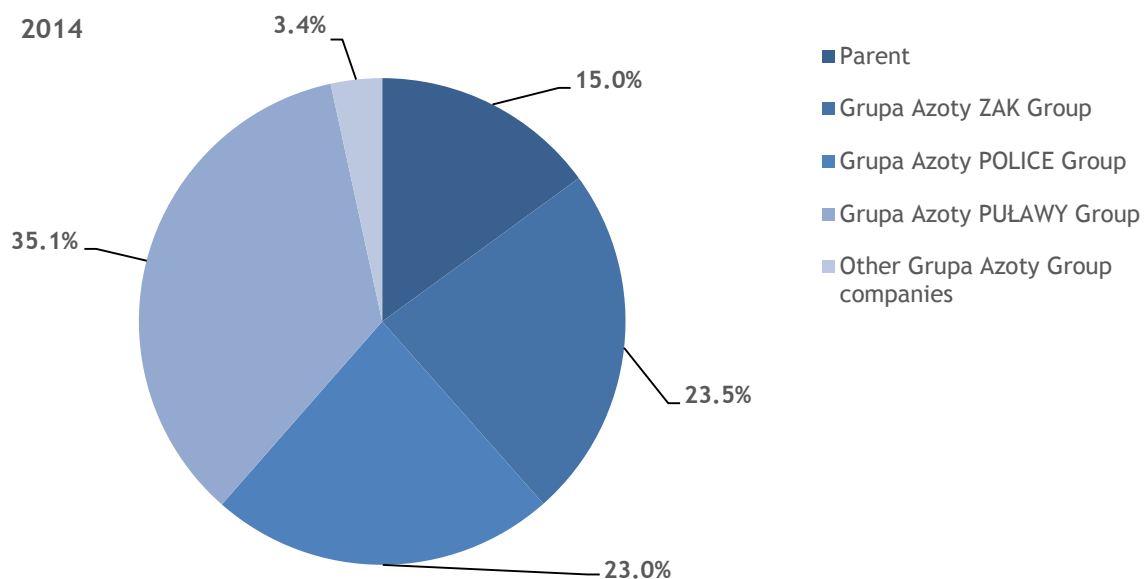
The Grupa Azoty PUŁAWY Group accounted for the largest share of raw material and consumables used in 2014, which translated into its largest share in the corresponding costs (35.1% of the total costs of raw material and consumables incurred by the Grupa Azoty Group).

The Grupa Azoty POLICE Group incurred costs of PLN (1,438,138) thousand (23.0% of total costs of raw material and consumables used).

The Parent's costs fell 6.9% year on year, to PLN 937,404 thousand.

Other Group companies accounted for 3.4% of the total costs.

Structure of raw materials and consumables used at the Grupa Azoty Group



Source: Company data.



### Other costs by type of expense

Expenses, net of raw material and consumables used, represented 33.8% of total expenses in 2014 (2013: 29.8%).

#### Structure of other costs [%]

	2014	2013 * restated
Depreciation and amortisation	5.5	5.8
Services	11.0	9.3
Salaries and wages, including overheads, and other benefits	12.8	11.2
Taxes and charges	3.2	2.4
Other costs by type of expense	1.3	1.0
<b>Total</b>	<b>33.8</b>	<b>29.8</b>

Source: Company data.

An analysis of changes in the structure of other costs reveals:

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

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

In 2014, the Group's assets fell to PLN 9,948,332 thousand, down by PLN 2,441 thousand on the end of 2013. As at December 31st 2014, non-current assets were PLN 6,781,085 thousand, and current assets were PLN 3,167,247 thousand.

Year on year, the most significant movements in assets in 2014 included:

- a 15.6% increase in inventory,
- a 79.2% decrease in current tax assets,
- a 48.4% decrease in investments available for sale,
- an 35.9% decrease in other financial assets,
- a 21.7% decrease in cash.

## Structure of assets

	2014	2013 * restated	change	% change
<b>Non-current assets, including:</b>	<b>6,781,085</b>	<b>6,629,942</b>	<b>151,143</b>	<b>2.3</b>
Property, plant and equipment	5,966,287	5,780,924	185,363	3.2
Intangible assets	510,415	519,631	(9,216)	(1.8)
Investment property	54,968	53,374	1,594	3.0
Investments in subordinated entities	110,842	128,944	(18,102)	(14.0)
Available-for-sale financial assets	12,371	23,989	(11,618)	(48.4)
<b>Current assets, including:</b>	<b>3,167,247</b>	<b>3,320,831</b>	<b>(153,584)</b>	<b>(4.6)</b>
Inventory	1,347,826	1,165,507	182,319	15.6
Current tax assets	6,720	40,558	(33,338)	(83.4)
Trade and other receivables	1,161,389	1,273,112	(111,723)	(8.8)
Cash and cash equivalents	558,603	713,024	(154,421)	(21.7)
Other financial assets	68,484	106,822	(38,338)	(35.9)
<b>Total assets</b>	<b>9,948,332</b>	<b>9,950,773</b>	<b>(2,441)</b>	<b>(0.0)</b>

Source: Company data.

Year on year, the most significant changes in equity and liabilities in the period under review included:

- a 3.5% increase in equity,
- a 22.7% increase in non-current employee benefit obligations,
- an 8.5% increase in trade and other payables,
- a 24.9% and 15.7% decrease in non-current and current liabilities under borrowings, respectively,

## Structure of equity and liabilities

Item	2014	2013 * restated	change	% change
<b>Equity</b>	<b>6,488,136</b>	<b>6,270,554</b>	<b>217,582</b>	<b>3.5</b>
<b>Non-current liabilities, including:</b>	<b>1,195,845</b>	<b>1,401,957</b>	<b>(206,112)</b>	<b>(14.7)</b>
Borrowings	476,932	634,693	(157,761)	(24.9)
Employee benefit obligations	312,419	254,613	57,806	22.7
Other provisions	113,106	119,343	(6,237)	(5.2)
<b>Current liabilities, including:</b>	<b>2,264,351</b>	<b>2,278,262</b>	<b>(13,911)</b>	<b>(0.6)</b>
Trade and other payables	1,425,553	1,313,547	112,006	8.5
Borrowings	509,259	604,140	(94,881)	(15.7)
Other provisions	211,432	213,839	(2,407)	(1.1)
<b>Total liabilities</b>	<b>3,460,196</b>	<b>3,680,219</b>	<b>(220,023)</b>	<b>(6.0)</b>
<b>Total equity and liabilities</b>	<b>9,948,332</b>	<b>9,950,773</b>	<b>(2,441)</b>	<b>(0.0)</b>

Source: Company data.

## 5.4. Financial ratios

### Profitability

The profitability ratios for 2014 showed varied year-on-year dynamics.

Gross margin rose by 2.8pp, as growth of gross profit (up 20.9%) was stronger than increase in revenue (up 0.8%). Higher EBIT and EBITDA margins are attributable to the improvement in operating profit (up 67.2%) and a simultaneous 0.8% increase in revenue.

The dynamics of changes of net margin was different. Lower net margin is attributable to lower net profit, as the previous year's profit included a gain on bargain purchase of companies.

The return on assets followed a similar pattern: lower net profit to assets ratio resulted in a lower ROA.

This also had a direct impact on ROE.

In the reporting period, return on capital employed grew, mainly as a result of EBIT growing much faster than the capital employed, which increased only slightly.

### Profitability ratios

	2014	2013 * restated
Gross margin	16.8 %	14.0 %
EBIT margin	3.1 %	1.8 %
EBITDA margin	8.3 %	7.4 %
Net margin	2.7 %	7.2 %
ROE	2.7 %	7.1 %
Return on capital employed	3.9 %	2.4 %
ROE	4.1 %	11.3 %
Return on non-current assets	3.9 %	10.7 %

Source: Company data.

### Ratio formulas:

*Gross margin = gross profit (loss) / revenue (statement of comprehensive income by function)*

*EBIT margin = EBIT / revenue*

*EBITDA margin = EBITDA / net 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 Group recorded a slight decrease in all its liquidity ratios.

Lower ratios result from a decrease in current assets, cash and other financial assets, with concurrent decrease in current liabilities.

## Liquidity ratios

	2014	2013 * restated
Current ratio	1.4	1.5
Quick ratio	0.8	0.9
Cash ratio	0.3	0.4

Source: Company data.

### Ratio formulas:

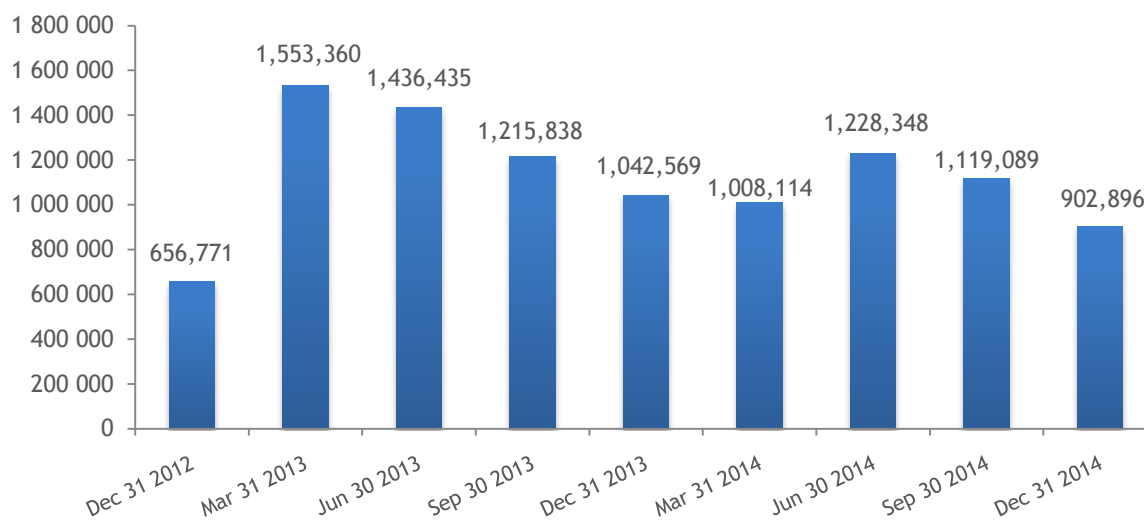
*Current ratio = current assets / current liabilities*

*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 movements in current assets and liabilities, as at December 31st 2014 working capital was positive at PLN 902,896 thousand.

## Changes in working capital



Source: Company data.

## Operating efficiency

Inventory turnover increased, primarily due to an increase in inventory. The average collection period was shorter, at 51 days. At the same time, the average payment period, which lengthened following the decline in cost of sales, led to the cash conversion cycle of 48 days, which is also reflected in the liquidity ratios.

### Operating efficiency ratios

	2014	2013 * restated
Inventory turnover	59	50
Average collection period	51	54
Average payment period	62	56
Cash conversion cycle	48	48

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 of 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. Throughout the period, the interest cover ratio remained at a level ensuring the Group's good credit standing and full ability to service debt.

### Debt ratios

Ratio	2014	2013 * restated
Total debt ratio	34.8 %	37.0 %
Long-term debt ratio	12.0 %	14.1 %
Short-term debt ratio	22.8 %	22.9 %
Equity-to-debt ratio	187.5 %	170.4 %
Interest cover ratio	687.5 %	1,594.1 %

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

During the year, the Grupa Azoty Group reduced its borrowings from PLN 1,238,833 thousand to PLN 986,191 thousand.

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

However, the Group maintains a considerable level of cash and cash equivalents (PLN 558,603 thousand as at December 31st 2014), and therefore its liquidity risk is very low. The Group also had access to available overdraft and multi-purpose credit facilities and investment credit facilities (PLN 827,636 thousand as at December 31st 2014), which further mitigates the liquidity risk.

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

In 2014, the Group was not refused any bank borrowings and none of its credit facility agreements was terminated.

Furthermore, as the consolidation process progressed in 2014, objectives of the financing strategy were effectively achieved, including:

- uniform financing terms for all companies of the Grupa Azoty Group were secured and further improved, reflecting the Group's credit standing and 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 achieved through the following measures:

- the Parent's management of cash pooling and overdraft sub-limits available to the Grupa Azoty Group within a global limit provided by PKO BP S.A., with flexible adjustment of the instruments to the needs of the Group companies,
- negotiation and standardisation of terms of credit limits and other bank financing instruments (leasing, factoring) for all companies of the Grupa Azoty Group, reflecting the Group's credit standing and 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,
- the Parent's dividend policy with respect to its subsidiaries, adapted to the financing requirements of Grupa Azoty's and its subsidiaries' investment strategy,
- development and adoption of the Grupa Azoty 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 Parent incurred capital expenditure of PLN 70,298 thousand, which it financed with own funds and, to a lesser extent, with lease arrangements.

The Group's total capital expenditure in 2014 amounted to PLN 572,197 thousand, and were financed with own funds, commercial investment credit facilities, loans from the National Fund for Environmental Protection and Water Management (NFOŚiGW) and the Provincial Fund for Environmental Protection and Water Management (WFOŚiGW), grants and leases.

As at December 31st 2014, the Group had access to PLN 91,604 thousand available under loans granted by the NFOŚiGW and the WFOŚiGW to finance environmental projects and PLN 317,807 thousand available under commercial investment credit facilities.

The Group 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 and by the date of this Report, Grupa Azoty Group companies executed the following material credit facility agreements or annexes to facility agreements:

#### **Annex to investment credit facility agreement between the Parent and BGŻ S.A.**

On January 14th 2014, the Parent and BGŻ S.A. executed an annex to the investment credit facility agreement of March 30th 2012 for financing of the modernisation of sulfuric acid unit, whereby individual payments were proportionately reduced to reflect partial use of the facility.

#### **Annex to receivables discounting agreement with mBank S.A.**

On January 20th 2014, March 31st 2014 and June 23rd 2014, the Parent and mBank S.A. (formerly BRE Bank S.A.) executed annexes to the receivables discounting agreement of July 30th 2010, under which the financing limit was raised to EUR 18,000 thousand, the agreement's term was extended until November 7th 2014, and the flexibility of settlements under the agreement was improved.

On August 26th 2014, another annex was signed to increase the facility limit from EUR 18,000 thousand to EUR 20,000 thousand, extend the agreement's term until September 23rd 2015 and reduce the debt service costs.

In addition, on September 24th 2014 the Parent and mBank S.A. executed a new receivables discounting agreement (concerning receivables from third parties) with the agreed limit of EUR 7,000 thousand, and the agreement's term until November 1st 2014.

#### **Multi-purpose credit facility agreement between Grupa Azoty POLICE, AIG and BNP Paribas Bank Polska S.A.**

On February 18th 2014, Grupa Azoty POLICE and African Investment Group S.A. entered into a multi-purpose credit facility agreement with BNP Paribas Bank Polska S.A. The bank granted the borrowers (acting as joint borrowers) a receivables limit of up to EUR 8,000 thousand for the period until February 17th 2016. The limit may be used to finance day-to-day operations through an overdraft facility, letters of credit and bank guarantees. The interest rate on the facility is based on a variable 1M EURIBOR rate + the bank's margin.

On September 26th 2014, the parties executed Amendment 2 to the multi-purpose credit facility agreement, under which the liabilities under the credit facility were transferred directly to African Investment Group S.A.

**Annex to multi-product facility agreement between Remzap Sp. z o.o. and Millennium Bank S.A.**

On March 25th 2014, Remzap Sp. z o.o. signed an annex to the multi-product facility agreement (bank guarantees, working capital facility, guarantee limit) concluded on January 27th 2012 with Millennium Bank S.A. Under the annex, the amount of the facility limit was increased from PLN 1,500 thousand to PLN 2,000 thousand, with an option of to use the limit as support for contract guarantees. The facility's term expired on January 26th 2015.

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

On February 19th 2014, the Parent, acting also on behalf of the other Group companies, executed another annex to the virtual cash-pooling agreement. The scope of the agreement was extended to include Grupa Azoty SIARKOPOL.

On April 16th 2014, the Parent, 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 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, under the agreement a new allocation of overdraft sub-limits was made by the Group for the period October 1st 2014–April 1st 2015.

**Annex to loan agreement between Grupa Azoty POLICE and Provincial Fund for Environmental Protection and Water Management (WFOŚiGW) of Szczecin**

On April 29th 2014, Grupa Azoty POLICE signed an annex to a loan agreement concluded on December 18th 2012 with the Provincial Fund for Environmental Protection and Water Management (WFOŚiGW) of Szczecin. The annex defines new dates for loan payments and changes the settlement date.

**Annex to overdraft facility agreement between Grupa Azoty PUŁAWY and Bank Zachodni WBK S.A.**

On May 30th 2014, Grupa Azoty PUŁAWY signed an annex to the overdraft facility agreement of December 29th 2009. The annex extended the facility term until May 31st 2015. The overdraft amount, unchanged at PLN 50,000 thousand, is to be used to finance day-to-day operations.

**Investment credit facility of Grupa Azoty POLICE with PKO Bank Polski S.A.**

On June 13th 2014, Grupa Azoty POLICE entered into an investment credit facility agreement of PLN 50,000 thousand to finance the project to construct an exhaust gas treatment unit and upgrade the EC II CHP plant. The facility repayment date is December 31st 2022. Amounts drawn under the facility bear interest at a rate per annum equal to 3M WIBOR plus the bank's margin.

On December 11th 2014, an annex to the credit facility agreement was signed to extend the term of the facility tranches.

**Repayment of Grupa Azoty ZAK S.A.'s investment credit facilities with PKO BP S.A.**

On June 27th 2014, Grupa Azoty ZAK S.A. made an early repayment of all its liabilities under two PLN- and EUR-denominated investment credit facilities with Raiffeisen Bank Polska S.A. available under agreements of March 23rd 2011, which were used to finance the construction of the nitric acid production unit (TKV). The repayments were financed from surplus of own funds and released loan security, including:

- PLN-denominated loan: PLN 8,117 thousand of principal and PLN 82 thousand of interest;
- EUR-denominated loan: EUR 6,941 thousand of principal and EUR 39 thousand of interest.

**Agreement with the Provincial Fund for Environmental Protection and Water Management concerning a loan for Zakłady Azotowe Chorzów S.A.**

On September 12th 2014, Zakłady Azotowe Chorzów S.A. received a loan of PLN 1,381 thousand as de minimis aid from the Provincial Fund for Environmental Protection and Water Management in Katowice towards the cost of modernisation of its industrial wastewater treatment plant. The agreement was signed on May 27th 2014 and amended on September 3rd 2014. The loan was granted until December 15th 2017.

**Factoring agreement under receivables discounting agreement between Grupa Azoty POLICE and Raiffeisen Bank Polska S.A.**

Under the existing receivables discounting agreement with Raiffeisen Bank Polska S.A. of October 4th 2013 which provides, among other things, for a factoring arrangement to finance Grupa Azoty POLICE's operations, on July 16th 2014 the company executed a separate factoring agreement.

Investment credit facility agreement of Grupa Azoty ZAK S.A.



On September 30th 2014, Grupa Azoty ZAK S.A. executed an investment credit facility agreement with Bank Gospodarstwa Krajowego S.A. for up to PLN 21,155 thousand to finance the launch of OXOPLAST® OT continuous-flow production, repayable by September 30th 2018.

**Overdraft facility agreement of Agrochem Puławy Sp. z o.o.**

On October 8th 2014, Agrochem Puławy Sp. z o.o. executed an overdraft facility agreement with Pekao S.A. for up to PLN 4,500 thousand, repayable by October 31st 2015.

**Investment credit facility agreement of Grupa Azoty ZAK S.A.**

On October 22nd 2014, Grupa Azoty ZAK S.A. executed an investment credit facility agreement with Bank Gospodarstwa Krajowego S.A. for up to PLN 256,000 thousand to finance the construction of a new CHP plant at Grupa Azoty ZAK S.A., repayable by June 30th 2024.

**Overdraft facility agreement of Grupa Azoty ZAK S.A.**

On October 22nd 2014, Grupa Azoty ZAK S.A. executed an overdraft facility agreement with Bank Gospodarstwa Krajowego S.A. for up to PLN 40,000 thousand, repayable by October 21st 2017.

**Annex to overdraft facility agreement of Grupa Azoty PUŁAWY**

On November 28th 2014, Grupa Azoty PUŁAWY and Bank Pekao S.A. signed an annex to the intraday overdraft facility agreement of May 14th 2010. Under the annex, the PLN 2,000 thousand facility's term was extended until November 30th 2015.

**Overdraft facility agreement between Agrochem Sp. z o.o. of Dobre Miasto and Bank Polska Kasa Opieki S.A.**

On December 24th 2014, Agrochem Puławy Sp. z o.o. of Dobre Miasto executed an overdraft facility agreement with Pekao S.A. for up to PLN 5,000 thousand, repayable by December 31st 2016.

**Material financing agreements executed or amended in 2014 or before the date of this Report**

	Agreement date	Annex date	Currency	Amount	Maturity
Annex to investment credit facility agreement between the Parent and BGŻ S.A.	Mar 30 2012	Jan 14 2014	PLN	43,662	from Mar 31 2014 to Dec 31 2018
Annex to Parent's receivables discounting agreement with mBank S.A.	Jul 30 2010	Jan 20 2014 Mar 31 2014 Jun 23 2014 Aug 26 2014	EUR	20,000	Sep 23 2015
Multi-purpose credit facility agreement between Grupa Azoty POLICE/AIG and BNP Paribas Polska S.A. and Amendment 2	Feb 18 2014	Sep 26 2014	EUR	8,000	Feb 17 2016
Annex to multi-product facility agreement between Remzap Sp. z o.o. and Millennium Bank S.A.	Jan 27 2012	Mar 25 2014	PLN	2,000	Jan 26 2015
Annex to overdraft facility agreement between the Grupa Azoty Group companies and PKO Bank Polski S.A.	Oct 1 2010	Apr 16 2014	PLN	302,000	Sep 30 2016
Annex to loan agreement between Grupa Azoty POLICE and Provincial Fund for Environmental Protection and Water Management (WFOŚiGW) of Szczecin	Dec 18 2012	Apr 29 2014	PLN	90,000	Dec 31 2022
Annex to overdraft facility agreement between Grupa Azoty PUŁAWY and and BZ WBK S.A.	Dec 29 2009	May 30 2014	PLN	50,000	May 31 2015
Investment credit facility agreement between Grupa Azoty POLICE and PKO BP S.A. with annex	Jun 13 2014	Dec 11 2014	PLN	50,000	from Jan 31 2016 to Dec 31 2022
Factoring agreement under receivables discounting agreement between Grupa Azoty POLICE and Raiffeisen Bank Polska S.A.	Oct 4 2013	Jul 16 2014	PLN	40,000 (factoring)	Jun 15 2015
Annex to the Agreement with the Provincial Fund for Environmental Protection and Water Management in Katowice concerning a loan for Zakłady Azotowe Chorzów S.A.	May 27 2014	Sep 3 2014	PLN	1,381	Dec 15 2007
Receivables discounting agreement (concerning receivables from a subsidiary) between the Parent and mBank S.A.	Sep 24 2014	-	EUR	7,000	Nov 1 2015

	Agreement date	Annex date	Currency	Amount	Maturity
Multi-purpose credit facility agreement between Grupa Azoty POLICE/AIG and BNP Paribas Polska S.A.	Feb 18 2014	Sep 26 2014	EUR	8,000	Feb 17 2016
Investment credit facility agreement between Grupa Azoty ZAK and BGK S.A.	Sep 30 2014	-	PLN	21,155	Sep 30 2018
Overdraft facility agreement between Agrochem Puławy Sp. z o.o. and Pekao S.A.	Oct 8 2014		PLN	4,500	Oct 31 2015
Investment credit facility agreement between Grupa Azoty ZAK and BGK S.A.	Oct 22 2014	Jan 9 2015-	PLN	256,000	Jun 30 2024
Overdraft facility agreement between Grupa Azoty ZAK S.A. and BGK S.A.	Oct 22 2014	-	PLN	40,000	Oct 21 2017
Intraday overdraft facility agreement between Grupa Azoty PUŁAWY and Bank Pekao S.A.	May 14 2010	Nov 28 2014	PLN	2,000	Nov 30 2015
Agreement between Agrochem Sp. z o.o. of Dobrze Miasto and Pekao S.A.	Dec 24 2014	-	PLN	5,000	Dec 31 2016

Source: Company data

### 5.9. Loans, including in particular loans granted to/received by the Group's related entities

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 February 26th 2014, Grupa Azoty PUŁAWY and GZNF Fosfory Sp. z o.o. executed annexes to the Agreement on debt repayment terms of May 26th 2011. The annex provided for release of security established for Grupa Azoty PUŁAWY over debt (a loan and trade credit limit) of Agrochem Sp. z o.o. of Człuchów and surety issued by GZNF Fosfory Sp. z o.o. for the liabilities of Agrochem Sp. z o.o. The second annex concerned the reduction of the loan margin.

In connection with the reduction of the liability under GZNF Fosfory Sp. z o.o.'s loan, the annex also changed the loan repayment schedule, i.e. the final repayment date was changed from December 29th 2017 to August 31st 2017, and the amount of the final instalment was reduced.

On March 14th 2014, the Parent 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, another annex to the loan agreement was signed, extending the loan maturity date from December 31st 2014 to June 30th 2015.

On April 2nd 2014, Grupa Azoty PUŁAWY executed a PLN 47,000 thousand loan agreement with Zakłady Azotowe Chorzów S.A. for the repayment of a PLN 44,000 thousand loan incurred by Zakłady Azotowe Chorzów S.A. from Agencja Rozwoju Przemysłu, with the remaining amount of the loan (PLN 3,000 thousand) to be used to co-finance extension of a coal-fired boiler house.

The loan advanced by Grupa Azoty PUŁAWY is to be repaid in 84 monthly instalments, with a six-month grace period. The repayment schedule is adjusted to the schedule agreed under the loan from Agencja Rozwoju Przemysłu (whose repayment is aimed at optimising interest expenses within the Grupa Azoty Group).

On December 31st 2014, an annex was signed to reschedule the instalments to be repaid in H1 2015 no later than at the end of the settlement period, i.e. until September 30th 2021.

On May 7th 2014, Grupa Azoty PUŁAWY executed a PLN 600 thousand loan agreement with SCF Natural Sp. z o.o., repayable by June 30th 2017, to finance the company's day-to-day operations.

On May 13th 2014, Grupa Azoty ZAK S.A. executed an annex to a PLN 700 thousand loan agreement of October 28th 2013 with Hotel Centralny Sp. z o.o. w likwidacji (in liquidation), whereby the loan repayment date was postponed from May 30th 2014 to September 30th 2014.

On May 15th 2014, Grupa Azoty PUŁAWY and Agrochem Sp. z o.o. of Dobre Miasto executed an annex to an PLN 11,000 thousand loan agreement of March 19th 2013. The annex concerned the reduction of the loan margin.

On December 31st 2014, another annex was executed to extend the repayment date of the instalment due in December 2014 to February 2015.

On December 23rd 2014, Grupa Azoty PUŁAWY signed a PLN 1,000 thousand special-purpose loan agreement with Bałtycka Baza Masowa Sp. z o.o. The loan will be used to finance the remaining part of an ongoing project 'Adjustment of granular fertilizer terminal for handling Big Bags.' The final loan repayment date is December 31st 2016.

## 5.10. Guarantees and sureties issued and received, in particular to related entities

In the reporting period, a surety granted by Grupa Azoty PUŁAWY to secure the repayment of credit facility contracted by Bałtycka Baza Masowa Sp. z o.o. (BBM Sp. z o.o.) was in effect. In view of timely repayment of the facility by BBM, on January 24th 2014 an annex to the surety agreement was signed, reducing the surety's liabilities towards the bank from USD 1,730 thousand to USD 1,230 thousand. Subsequent to the end of the reporting period, on January 22nd 2014, another annex to the agreement was signed, decreasing the surety's liabilities towards the bank from USD 1,230 thousand to USD 730 thousand.

On December 24th 2014, an agreement was signed by Agrochem Puławy Sp. z o.o., whereby a surety was granted for the benefit of Agrochem Sp. z o.o. of Dobre Miasto to support a working-capital overdraft facility of PLN 7,500 thousand. The surety remains valid until December 31st 2016.

The Grupa Azoty Group's related entities did not issue sureties or guarantees to the Parent. In 2014, the following guarantees were issued upon Group companies' instructions:

### Guarantees issued or amended in 2014 upon instructions of Grupa Azoty Group companies

Type and parties	Issue date	Security for:	Amount (PLN)	Validity date
Bank guarantee issued by PKO BP S.A. upon Parent's instructions for the benefit of OGP GAZ-SYSTEM S.A.	Apr 29 2014 <sup>1)</sup>	Gas transmission contract	2,009	Feb 28 2015
	Apr 29 2014 <sup>2)</sup>		1,271	Feb 28 2015
	Apr 29 2014 <sup>3)</sup>		9	Sep 30 2017
Bank guarantee issued by PKO BP S.A. upon the Parent's instructions for the benefit of the Director of Customs Chamber in Kraków	Dec 14 2011 <sup>4)</sup>	Customs debt payment	800	Mar 1 2016
Bank guarantee issued by PKO BP S.A. upon Parent's instructions for the benefit of Warsaw Trade Tower sp. z o.o. S.K.A. of Warsaw	Jul 23 2014	Rental agreement	294 (EUR 69 thousand)	Sep 29 2017
Bank guarantee issued by Raiffeisen Bank upon Grupa Azoty POLICE's instruction for the benefit of OGP GAZ-SYSTEM S.A.	Mar 31 2014	Gas transmission contract	45	Dec 1 2014
	Feb 26 2014		80	Jun 15 2015
	Mar 31 2014		2,086	Dec 1 2014
	May 1 2014		1,702	Sep 1 2014
	Jul 1 2014		2,032	Dec 1 2014
Dec 1 2014	7,731	Jun 15 2015		
Bank guarantee issued by Raiffeisen Bank S.A. upon Grupa Azoty POLICE's instruction for the benefit of PSE S.A.	May 1 2014 May 1 2014	Electricity transmission agreement	500 1,100	Dec 31 2014 Mar 2 2015
Bank guarantee issued by PKO BP S.A. upon Grupa Azoty POLICE's instruction for the benefit of the Customs Chamber in Szczecin	Dec 2 2014	Customs debt payment	1,000	Dec 2 2015

Type and parties	Issue date	Security for:	Amount (PLN)	Validity date
Bank guarantee issued by PKO BP S.A. upon instruction of Grupa Azoty ZAK S.A. for the benefit of Umicore Precious Metals Refining of Belgium (On June 26th 2014, annex 1 was executed, reducing the guarantee amount from EUR 2,490 thousand to EUR 1,379 thousand and extending its term to December 22nd 2014; annex 2 of December 18th 2014 further extended the term)	Apr 23 2014	Contract security deposit	5,879 (EUR 1,379 thousand)	Jun 21 2015
	Apr 29 2014		157	Jul 31 2014
	Jun 12 2014		185	Aug 31 2014
	Jun 26 2014		701	Nov 30 2014
Bank guarantee issued by PKO BP S.A. upon Grupa Azoty ZAK S.A.'s instructions for the benefit of OGP GAZ-SYSTEM S.A.	Aug 6 2014	Gas transmission contract	66	Nov 30 2014
	Aug 6 2014		321	Feb 28 2015
	Sep 3 2013 <sup>5)</sup>		529	Nov 30 2014
	Sep 3 2013 <sup>6)</sup>		2,097	Nov 30 2014
	Sep 3 2013 <sup>7)</sup>		55	Nov 30 2014
	Oct 16 2014		2,680	Nov 30 2015
Oct 16 2014	3,777	Nov 30 2015		
Bank guarantee issued by PKO BP S.A. upon Grupa Azoty ZAK S.A.'s instructions for the benefit of the Customs Chamber in Opole	Dec 12 2012 <sup>8)</sup>	Customs debt payment	1,500	Mar 1 2015
Bank guarantee issued by Millenium Bank for the benefit of Indorama Netherlands B.V.	Jul 4 2014	Contract security deposit	368	Jun 30 2016
Bank guarantee issued by SILEKOL Sp. z o.o. upon instruction of PROZAP Sp. z o.o.	Jul 14 2014	Contract security deposit	31	Dec 31 2016
Bank guarantees issued by SYNTHOS Sp. z o.o. upon instruction of PROZAP Sp. z o.o.	Mar 3 2014	Contract security deposit	17	May 30 2016
	Oct 31 2014		41	Oct 10 2016
Bank guarantee issued upon instruction of PROZAP Sp. z o.o. for the benefit of Vitkovice Power Engineering	Sep 5 2014	Service contract security deposit	2,754 (CZK 17,916 thousand)	Jan 14 2015

Type and parties	Issue date	Security for:	Amount (PLN)	Validity date
Guarantees issued upon instruction of PROZAP Sp. z o.o. for the benefit of Grupa Azoty PUŁAWY	Mar 24 2014	Performance bond, including removal of faults and defects	560	Apr 30 2016
	May 14 2014			Oct 1 2016
	Aug 29 2014			Dec 30 2016
	Sep 1 2014			Nov 29 2017
	Oct 9 2014			Dec 5 2017
	Oct 9 2014			Dec 31 2017
	Nov 14 2014			Dec 31 2016
	Nov 20 2014			Jan 31 2017
	Bank guarantee for LIWA CHEMICALS ZEA			Nov 31 2014
			41,405	

Source: Company data.

- 1) 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.
- 2) 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.
- 3) On November 25th 2014, Annex 1 was signed to extend the guarantee term from November 30th 2014.
- 4) On July 2nd 2014, an annex was signed to increase the guarantee amount from PLN 800 thousand to PLN 1,100 thousand; on November 26th 2014 an annex was signed to reduce the guarantee amount from PLN 1,100 thousand to PLN 800 thousand and extend its term.
- 5) Annex of March 19th 2014.
- 6) Annex of March 19th 2014.
- 7) Annex of March 19th 2014.
- 8) On December 5th 2013, Annex 1 was signed to extend the term of the guarantee until March 1 2015; on December 17th 2014 Annex 2 was signed to extend the term of the guarantee to March 1st 2016 and to change the amount of the guarantee from PLN 1,500 thousand to PLN 2,500 thousand as of January 1st 2015.

Guarantees issued by banks and insurance companies upon Grupa Azoty Group's instruction as at December 31st 2014

Type	Beneficiary	Details	Currency	Date issued	Dec 31 2014	Dec 31 2013
Insurance guarantee Performance bond, including removal of faults and defects	RAFAKO S.A.	Agreement No. Z/K/ZU/0053/09/AH	PLN	Aug 26 2010	-	37
Insurance guarantee for removal of faults and defects	Grupa LOTOS S.A.	Agreement No. 4600003268	PLN	Mar 21 2011	-	15
Insurance guarantee as performance bond	RAFAKO S.A.	Agreement No. Z/K/ZU/0290/10/JB	PLN	Oct 17 2011	-	124
Bank guarantee issued by PKO BP S.A.	Director of Customs Chamber in Krakow	Security for customs debts	PLN	Dec 14 2011	1,100	800
Bank guarantee	INS of Puławy	Block on funds in the account	PLN	Jan 3 2012	9	-
InterRisk insurance guarantee	MPB Jetty s.c. consortium	Performance bond	PLN	Feb 13 2012	577	577
InterRisk insurance guarantee	MPB Jetty s.c. consortium	Performance bond	PLN	Mar 19 2012	192	192
InterRisk insurance guarantee	PGE GiEK S.A.	Performance bond	PLN	Apr 16 2012	-	6
InterRisk insurance guarantee	PGE GiEK S.A.	Performance bond	PLN	Jul 04 2012	-	8
InterRisk insurance guarantee	PGE GiEK S.A.	Performance bond	PLN	Aug 9 2012	-	3
Bank guarantee	Grupa Azoty	Performance bond	PLN	Nov 30 2012	21	-
Bank guarantee	SYNTHOS	Contract security deposit	PLN	Dec 20 2012	63	-
Bank guarantee issued by PKO BP S.A.	Customs Chamber	Security for customs debts	PLN	Dec 12 2013	1,500	1,500
Bank guarantee	Grupa Azoty POLICE	Performance bond	PLN	Jul 25 2013	350	-



Type	Beneficiary	Details	Currency	Date issued	Dec 31 2014	Dec 31 2013
Bank guarantee issued by PKO BP S.A.	GAZ-SYSTEM S.A.	Security deposit for gas transmission contract	PLN	Sep 3 2013	-	225
Bank guarantee issued by PKO BP S.A.	GGAZ-SYSTEM S.A.	Security deposit for gas transmission contract	PLN	Sep 3 2013	-	529
Bank guarantee issued by PKO BP S.A.	GAZ-SYSTEM S.A.	Security deposit for gas transmission contract	PLN	Sep 3 2013	-	2,097
Bank guarantee issued by PKO BP S.A.	GAZ-SYSTEM S.A.	Security deposit for gas transmission contract	PLN	Sep 3 2013	-	94
Bank guarantee issued by PKO BP S.A.	PGNiG TERMIKA S.A.	Security for LIKAM supply contract	PLN	Sep 23 2013	140	140
Bank guarantee issued by PKO BP S.A.	Customs Chamber	Security for customs debts	PLN	Nov 29 2013	1,000	1,000
Bank guarantee issued by Raiffeisen Bank	GAZ-SYSTEM S.A.	Security deposit for gas transmission contract	PLN	Oct 11 2013	-	993
Bank guarantee issued by Raiffeisen Bank	GAZ-SYSTEM S.A.	Security deposit for gas transmission contract	PLN	Oct 11 2013	-	2,813
Bank guarantee issued by Raiffeisen Bank	GAZ-SYSTEM S.A.	Security deposit for gas transmission contract	PLN	Oct 11 2013	-	181
Bank guarantee issued by PKO BP S.A.	Warsaw Trade Tower of Warsaw	Performance bond for a lease contract	EUR*	Jul 23 2014	294 (EUR 69 thousand)	158 (EUR 38 thousand)
Bank guarantee	Schlumberger Oilfield Eastern Limited Sp. z o.o.	Contract security deposit	PLN	Oct 23 2013	447	-
Bank guarantee	Parent	Performance bond	PLN	Dec 17 2013	39	-
Standby letter of credit issued by PKO BP S.A.	STATOIL ASA	Gas supply contract	EUR*	Dec 23 2013	18,498 (EUR 4,340 thousand)	17,999 (EUR 4,340 thousand)

Type	Beneficiary	Details	Currency	Date issued	Dec 31 2014	Dec 31 2013
Standby letter of credit issued by PKO BP S.A.	STATOIL ASA	Gas supply contract	EUR*	Dec 30 2013	18,498 (EUR 4,340 thousand)	17,999 (EUR 4,340 thousand)
Guarantee for the benefit of Grupa Azoty Automatyka Sp. z o.o.	Bioagro S.A.	Performance bond	PLN	Feb 4 2014	40	-
Bank guarantee	SYNTHOS	Contract security deposit	PLN	Mar 3 2014	17	-
Guarantee for the benefit of Grupa Azoty Automatyka Sp. z o.o.	RAFAKO S.A.	Performance bond	PLN	Mar 3 2014	196	-
Bank guarantee issued by PKO BP S.A.	Umicore Precious Metals Refining, Hoboken (Belgium)	Contract security deposit	EUR*	Apr 23 2014	5,879 (EUR 1,379 thousand)	-
Bank guarantee issued by PKO BP S.A.	GAZ-SYSTEM S.A.	Security deposit for gas transmission contract	PLN	Apr 29 2014	3,289	-
Bank guarantee	PSE S.A.	Electricity transmission agreement	PLN	May 1 2014	500	-
Bank guarantee	PSE S.A.	Electricity transmission agreement	PLN	May 1 2014	1,100	-
Bank guarantee	Indorama Netherlands B.V.	Contract security deposit	PLN	Jul 4 2014	368	-
Bank guarantee	SILEKOL	Contract security deposit	PLN	Jul 14 2014	31	-
Bank guarantee	GAZ-SYSTEM S.A.	Security deposit for gas transmission contract	PLN	Aug 6 2014	322	-
Bank guarantee	Vitkovice Power Engineering	Service contract security deposit	CZK**	Sep 5 2014	2,754 (CZK 17,916 thousand)	-
Bank guarantee	GAZ-SYSTEM S.A.	Security deposit for gas transmission contract	PLN	Oct 16 2014	2,680	-
Bank guarantee	GAZ-SYSTEM S.A.	Security deposit for gas transmission contract	PLN	Oct 16 2014	3,777	-
Bank guarantee	GAZ-SYSTEM S.A.	Security deposit for gas transmission contract	PLN	Oct 21 2014	80	-

Type	Beneficiary	Details	Currency	Date issued	Dec 31 2014	Dec 31 2013
Bank guarantee	SYNTHOS	Contract security deposit	PLN	Oct 31 2014	41	-
Bank guarantee	LIWA CHEMICALS ZEA	Contract security deposit	EUR	Nov 30 2014	28 (EUR 6,600)	-
Bank guarantee	GAZ-SYSTEM S.A.	Security deposit for gas transmission contract	PLN	Dec 1 2014	7,731	-
Bank guarantees	Grupa Azoty PUŁAWY	Performance bond, including for removal of faults and defects	PLN	from Nov 22 2011 to Nov 20 2014	3,900 (total amount)	-
					<b>75,461</b>	<b>47,490</b>

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

December 31st 2014: 4.2623

\*\* CZK-denominated liabilities were translated into PLN at the CZK/PLN mid rate quoted by the NBP for December 31st 2014: 0.1537

## 5.11. Significant off-balance-sheet items

### Promissory notes

Beneficiary	Details	Currency	Date issued	Dec 31 2014	Dec 31 2013
PKN Orlen S.A.	Trade credit security (trade payables)	PLN	Sep 2 2011	25,000	25,000
Polimex-Mostostal Siedlce S.A.	Security for liabilities under advance payment bond for contract with CNCCC China		Jan 26 2005	2,069 (USD 590 thousand)	1,777 (USD 590 thousand)
Director of Customs Chamber in Krakow	Security for excise tax	PLN	Dec 20 2012	330	330
National Fund for Environmental Protection and Water Management	Security for repayment of funds provided for implementation of ash utilization project	PLN	Aug 9 2010	4,588	4,588
Director of Customs Chamber in Krakow	Security for existing and future excise tax liabilities	PLN	Aug 7 2012	1,050	1,050
National Fund for Environmental Protection and Water Management	Security for grant repayment	PLN	Dec 13 2013	358	358
Head of Customs Office of Nowy Sącz	Security for excise tax	PLN	Jun 25 2014	200	-
National Fund for Environmental Protection and Water Management	Security for agreement on co-financing of Project No. KSI POIS.04.03.00-00-012/08	PLN	Dec 14 2009	20,000	20,000
Nordic Team Central Europe	Security for lease payments	PLN	2011	56	56
Customs Office in Opole	Security for excise tax	PLN	Dec 31 2010	648	648
				<b>54,299</b>	<b>53,807</b>

\* USD-denominated liabilities were translated into PLN at the USD/PLN mid rate quoted by the NBP for December 31st 2014: 3.5072  
December 31st 2013: 3.0120

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

## 5.12. Financial instruments - risk management policy and risk management instruments, objectives and methods

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

In 2014, the Parent 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 Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations.

Credit risk arises principally from the trade receivables, bank deposits and cash pooling.

Taking into account the procedures in place at the Group and its diversified customer base, the concentration of credit risk not considered significant. Part of free cash held by Group companies (PLN 122,363 thousand as at December 31st 2014) is deposited in virtual cash-pooling accounts connected to overdraft facilities granted to the Group by PKO BP S.A. In this way, the Group optimises its interest expense and income and reduces the credit risk. Other free cash is maintained in diversified short-term deposits held with reputable banking institutions with safe solvency ratios.

59% of the Group's trade receivables from non-related parties are insured under trade credit insurance policies issued by Korporacja Ubezpieczeń Kredytów Eksportowych S.A., Atradius Credit Insurance N.V. S.A. and Euler Hermes, which limits the credit risk to the amount of deductible (5-10% of the insured receivables). The insurance policies provide the facility for current monitoring of customer's current financial position and debt recovery when required. Additionally, upon customer's real or legal insolvency, the Group receives the compensation payment amounting to 90-95% of insured receivable value.

Further, over 14% of the Group's trade receivables from non-related parties are secured by letters of credit or guarantees, which are not covered by insurance.

The Group operates a unified credit risk management policy by performing ongoing credit assessment and customer monitoring. For these purposes, it reviews business intelligence reports, debtor registers and the customer's credit history.

The Group also defers payment for products with a market value not exceeding the value of the security provided, mostly with respect to domestic customers in the Agro Fertilizers segment.

Whenever no positive trading history exists between a trading partner and the Group 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 Group's internal financial staff (individually for each customer) and, if a receivable is insured, also by the insurance company analysts. Taking into account the procedures in place at the Group and its diversified customer base, the concentration of credit risk not considered significant.

Foreign customers account for approximately 54% of the Group's total trade receivables, with the balance of 46% being domestic trade receivables.

The Group's revenue concentrates in four main segments reflecting the Group's business profile. The Agro Fertilizers Segment accounts for the largest share of Group's trade receivables (35.6%), followed by the Plastics Segment (27.3%), the Chemicals Segment (26.7%), Other Activities (8.2%) and the Energy Segment (2.2%). Most of the sales in the Plastics and Chemicals segments are to foreign customers who use trade credit, chiefly within insured trade limits, or alternatively use letters of credit and guarantees. The Agro Fertilizers Segment is dominated by domestic customers, where some sales are made on a prepaid basis; if a trading partners proves creditworthy, it is granted trade credit within insured credit limits.

### **Cash and cash equivalents. Bank deposits**

Cash and cash equivalents are held at banks having high ratings and which maintain safe solvency ratios.

### **Liquidity risk**

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

The Parent optimises free cash management through cash-pooling, revolving facilities and dividend policy in the Group, therefore the liquidity risk is very low. The Group also manages the overdraft facilities of the Group entities and holds free factoring and discounting limits, further reducing the liquidity risk. In 2014, the Group companies did not default on any of their liabilities or financial covenants where such default would trigger acceleration of the liabilities.

### **Market risk**

#### **Currency risk**

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

The Group considers the current and planned net currency exposures and reduces the existing currency risk resulting from the net currency exposure by using selected hedging instruments and activities. In the reporting period the Group 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 Group 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 Group'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 Group does not hedge interest rate risk.

The activities aimed to reduce the interest rate risk include ongoing monitoring of the financial situation in the money market. The Group'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 Group on its bank borrowings and loans in 2014, and reduced interest expenses on the Group'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 Group takes steps to include such provisions in sales contracts which are symmetric to the provisions included in its supply contracts (e.g. references to ICIS-LOR quotations).

### **Fair value of financial instruments**

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

- Cash and cash equivalents, short-term bank deposits and short-term bank 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 Group 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 31 December 2014, the total nominal value of the Group's open currency derivatives (forward contracts) amounted to EUR 28,750 thousand (by maturity: January 2015 - EUR 4,750 thousand; February and March 2015 - EUR 5.5m each; April 2015 - EUR 5m, May 2015 - EUR 3.5m; June 2015 - EUR 1.5m; July, August and September 2015 - EUR 1m each). USD forward contracts by maturity were as follows: January 2015 - USD 1,515 thousand; February 2015 - USD 1,610 thousand; March 2015 - USD 1,630 thousand; April and May 2015 - USD 700 thousand each; June 2015 - USD 600 thousand.

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

The Group 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 transactions 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 Group's deficit of CO<sub>2</sub> emission allowances (EUA), and their purpose is to reduce the effect of fluctuations of the market price of the allowances on the Group's financial performance.

### **Fair value of derivatives**

The fair value of open currency forwards as at December 31st 2014 amounted to PLN (1,134) thousand and was recognised as other financial liabilities (as at December 31st 2013: PLN 782 thousand, recognised as other financial assets). The value of futures for purchase of CO<sub>2</sub> emission rights was PLN 4,757 thousand, recognised under other financial assets.

No hedging relationships were designated in this group.

### 5.13. Group's expected financial standing

The Parent and leading Group companies are fully solvent, with good credit standing. This means that the Group is able to pay its liabilities as they fall due and to hold and generate free operating cash flows to further support payment of such liabilities.

In 2014, the Group paid all of its borrowing-related liabilities when due, and there is no threat to its ability to continue servicing its debt.

In 2014, the Parent and other Group companies paid out dividend from their 2013 profit, as per relevant dividend resolutions passed by the general meetings.

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

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

The Group's Budget for 2015 takes into account all market forecasts available to the Group 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 Parent 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 Group's long-term Strategy.



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

### 6.1. Significant risk factors and threats

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

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

#### **Risk related to availability of natural gas**

Natural gas represents the key component of production costs at the Group, with the Group's annual consumption at 2.2bn cubic metres. PGNiG S.A. was the Group's key gas supplier (61.4%). Other sources were used for the remaining 38.6%. PGNiG S.A. supplied both high-methane gas and gas from local sources under long-term contracts. Supplies from other trading partners were executed under short-term contracts.

In its search for alternative and competitive sources of gas, the Group companies seek to diversify both the geographical regions and the suppliers of their gas imports, and report on these efforts in their press releases and reports. Negotiations with alternative gas suppliers are conducted at the Group level, which allows the Group to leverage its stronger bargaining position. The Group's gas requirements are also partially satisfied from local sources. The Group 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 Group companies also focus on lowering their gas consumption costs by implementing investment projects designed to reduce gas consumption rates. 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, half of the gas purchased by the Group is priced based on the 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.

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

The Grupa companies are working on investment projects begun in previous years, while embarking on new projects provided for in the Grupa Azoty Group Strategy for 2014-2020 that are important from the point of view of the Group's interests. Delivery of the Strategy depends on a range of factors, including those outside of the Group's control. In the 'Operationalisation of the Strategy' of June 2014, the Management Board and the Supervisory Board defined three pillars underlying the Group's growth, which included Organic Growth (implemented through investments in property, plant and equipment) and Mergers and Acquisitions.

The risks related to the implementation of the Strategy are external factors in the Group's environment, such as macroeconomic factors, market conditions, business environment and activities of the main competitors. Their negative impact could hinder the Group from developing as planned and from achieving their strategic objectives.

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

In order to minimise the risks related to the execution of strategic projects at the Grupa Azoty Group, internal procedures have been put in place to define and govern the preparation and execution of investment projects. Oversight has been introduced over strategic projects and their reviewed assumptions (business effects, budgets, KPIs, schedules, division of responsibilities), and regular updates are provided on projects status. Strategic projects are monitored by dedicated Strategic Project Managers appointed by the Company's Management Board. The monitoring of each project covers:

- basic information on the project,
- the schedule of milestones with description of expected effects, deadline and the responsible person,
- the schedule of financial effects (mainly CAPEX and EBIT) to be achieved over time,

- each project is assigned its owner who will be responsible for the economic result of the project's implementation.

Capital expenditure is defined in the Investing Activity Plan, for each of the four key companies and at the Group level. When planning capital expenditure, an acceptable deviation margin (expressed as a percentage) from the assumed targets is allowed.

In order to mitigate the risk inherent in the investment decision-making process, each Group company has applied internal policies which clearly define and govern the preparation and implementation stages of investment projects.

The execution of investment projects includes change management, where special attention is given to changes in foreign exchange rates, prices of steel and other commodities, as well as the requirements to be met by newly constructed units. As a result, execution timetables and expenditure budgets can be updated on an ongoing basis. In addition, controlling officers monitor the execution of projects to identify potential threats. These policies also take into account the requirements related to the obligations imposed on beneficiaries of EU subsidies granted for the execution of projects co-financed with aid funds.

### **Risks associated with new legal requirements relating to production processes, including environmental regulations (description of the risks presented in three sub-groups)**

#### **1. 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 companies will have to undertake specific adaptation work, and bear its costs, with respect to:

- bringing the CHP plants operated by the Group companies in line with the new, more restrictive, standards of NO<sub>x</sub>, SO<sub>2</sub> and dust emissions. The plants in Tarnów, Police, and Puławy will be brought in line with the requirements of the IED Directive, and a new energy source will be built at the Kędzierzyn plant,
- modernisation of the urea production plant at ZAK S.A. - bringing the existing production plant in line with new legal requirements, including environmental regulations, with respect to urea and ammonia dust emissions,
- modernisation of the titanium white production plant in Police - continuous monitoring was implemented in January 2015, compliant with the new Regulation. Investments and overhauls of dust removal and desulphurisation units are nearing completion, and will ensure the units' compliance with the new emissions standards.

To ensure that there is sufficient time for taking appropriate steps to adapt the Group's facilities to the changing regulations, the Group continuously monitors all planned and implemented changes in the legal environment which could affect its operations. Investments necessary in the light of new regulations are included in Group companies' investment plans.

#### **2. Risk associated with greenhouse gas emissions**

In the course of their production processes, the Group companies emit pollutants and greenhouse gases into the air. Changes in the legal requirements concerning greenhouse gas emissions generate the risk of the Group 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 expanded the scope of the EU ETS to cover other areas, including the chemical industry, in the third trading period from 2013 to 2020. In the case of the Group, 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 CO<sub>2</sub> emissions are not covered by the free allowances, the Grupa Azoty Group may need to incur additional capital expenditure on projects designed 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.

In order to mitigate this risk, the Group companies have been taking steps designed to reduce the energy intensity of production processes, and thus reduce greenhouse gas emissions; for the Group company based in Kędzierzyn, it meant reducing nitrous oxide emissions from its nitric acid unit.

### 3. Risk associated with BAT conclusions

Following the scheduled review of the regulations on the Best Available Techniques for the Manufacture of Large Volume Inorganic Chemicals - Ammonia, Acids & Fertilisers, there is a risk of implementing stricter and broader requirements relating to the air pollution emissions standards. Similarly, there is a risk that new BATs will be defined for the installations for which so far no BATs have been specified. The period for adapting production installations to the emission requirements specified in the BAT conclusions is four years.

In order to meet the BAT requirements, companies should monitor on an on-going basis any drafts of new laws and regulations and actively present their opinions on the proposed legislation. The measures taken by the Group companies in this respect include:

- analysing the effectiveness of the technologies used in the context of development trends prevailing in the competitive environment,
- planning and implementing projects designed to bring the production installations in line with the BAT/BREF standards,
- searching for new solutions used in the processes, in particular to improve efficiency and reduce energy intensity in the context of regulations currently in place and the current level of technology,
- developing and extending the product range by adding new fertilizers based on components produced in the existing installations.

#### **Risk of deteriorated sales performance caused by an imbalance between supply and demand Fertilizer Segment (material changes)**

- Growth of harmful fertilizer imports from countries with cheap feedstocks resulting from disruptive protectionist measures, such as dual pricing, especially of gas, potassium chloride or phosphates, imported mainly from Eastern Europe, Western Asia and the MENA countries.
- New fertilizer production capacities coming on-stream, especially in EU neighbouring regions.
- Announcement of low and fixed export duties on fertilizers in China for 2015 (abandoning the "customs duty window"), which with a demand slowdown in China will cause large-scale fertilizer exports. In a situation when the Indian government withdraws its subsidies and at the same time the Indonesian government reduces its purchases, with both countries being buffer markets for Chinese exports, the flow of Chinese products may be re-directed to other markets, including Europe.
- Ukrainian fertilizer production capacities put back on-stream, which, considering the liberalisation of trade relations between the European Union and Ukraine and the lowering of custom duties, may cause inflows of fertilizers to the EU, and especially to Poland.

Grupa Azoty monitors the market on an ongoing basis through its market research and responds promptly to any observed changes. The sales strategy is based on strong relations with the best distributors, complementary services (comprehensive and gradually expanded offering of fertilizers renowned for their quality), a broad marketing programme (agricultural website for farmers, on-line application facilitating business relations with customers), addressing the offering directly to the largest end customers, and ensuring that the target groups on foreign markets are better reached. Securing safe supplies of raw materials through the acquisition of own sources of sulfur and phosphate. Gas purchase policy providing for a 50% shares of gas purchased on the free market.

Grupa Azoty is very active in the regulatory field where it, on its own or through industry organisations, monitors changes and reaches decision-making or opinion-forming bodies to:

- introduce anti-dumping duties on products affected by harmful imports,
- prevent threats posed by negotiations of international trade agreements by the EU (currently with the US), as well as by countries joining the WTO (Russia),
- prevent trends weakening market protection instruments,
- inform Members of the European Parliament of the adverse consequences of the ETS and other regulations on the competitiveness of the European industry and its transfer outside the EU.

#### Plastics Segment (material changes)

- expansion of Chinese polyamide production capacities ensuring Chinese self-sufficiency (ca. 700 thousand tonnes annually), leading to contracting export markets for EU producers and oversupply in the region;
- planned expansion of polyamide production capacities on the already saturated EU market (up 20 thousand tonnes per year);
- expansion of Chinese caprolactam production capacities by ca. 600 thousand tonnes;

The Group mitigates the risk by customising the product mix for processing companies (proprietary application lab), maintaining strong relationships with customers via its Hamburg trade office and developing plans to launch an expanded polyamide range for a wide variety of applications. Thanks to these efforts, Group customers may rely on deliveries of products tailored to their needs in a long time horizon, which ensures stability of supplies. On-line application facilitating business relations with customers. New geographical markets.

#### OXO Segment (material changes)

- higher supply of OXO alcohols on a balanced European market, driven by heavy inflow of cheaper alcohols, especially from the Russian market;
- import of plasticisers to the balanced and highly competitive EU market, on which a wide range of plasticisers are available – the risk related to imports of non-phthalate plasticizers from the Korean and Turkish markets is particularly significant.

The Group mitigates the risk by:

- adjusting its product mix to market requirements and needs, for instance by introducing non-phthalate plasticisers, ensuring high purity of OXO alcohols and identifying market niches – e.g. improving the DEHP plasticizer for medical applications or arranging deliveries tailored to the needs of end users (flexitanks for deep-sea freight of small volumes of products);
- initiatives designed to minimise production costs of individual products.

#### Currency risk

The Group has a positive exposure to the euro and the US dollar which is hedged based on on-going 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 Group 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 at 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 nitrate fertilizer market in the context of bilateral trade with other EU countries. Strong fluctuations in exchange rates may affect the Group's business, financial standing or performance.

### **Risk of a negative effect of CO<sub>2</sub> trading prices on financial performance**

The Group and its individual companies implement 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 Group has in place a monitoring system for emissions covered by the EU ETS. It also performs ongoing balancing of greenhouse gas emissions. The Group 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 Group mitigates the risk of an adverse effect of CO<sub>2</sub> 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 CO<sub>2</sub> certificates under Phase III of the EU ETS have been allocated to all Group companies, and the timely allocation of further certificates is expected in line with the allocation plan for the next trading periods. In addition, the companies file audit reports in a timely manner and redeem allowances used for a given year (i.e. by April 30th of the following year).

The Group 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.

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

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

Prevention of industrial accidents at the Group companies is achieved through a range of activities, including:

- identification of hazards inherent in technological processes, storage and transport, and implementation of technical solutions and organisational measures to minimize the risk of an accident,
- ongoing monitoring of operations of machinery and equipment and evaluation of their technical condition,
- fitting of plants and units with safety and protection systems to minimise the risk of a major accident and environmental contamination, as well as risks to life and limb,
- implementation of new projects and upgrades based on technical and organisational solutions designed to ensure occupational health and safety (the Group's facilities are compliant with the Best Available Techniques (BAT) reference documents, which are the source of the world's strictest safety requirements, including environmental regulations),
- effecting planned technical stopovers and maintenance shutdowns to ensure that the units and installations are kept in a proper working order,
- continuous improvement of the employees' qualifications through trainings, courses, etc.
- introduction of corporate rules within the Group on how to report industrial accidents and failures, as well as how to investigate them and take preventive measures to mitigate the risk of their recurrence in the future,
- analysis of technical and technological risks at the Grupa Azoty Group,

- implementation of an operational excellence programme,
- implementation of the Product Stewardship standard, covering all stages of the fertilizer lifecycle, which has been confirmed by the issuing of a certificate.

#### **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 its leadership in the segment, the Group 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 Group to strengthen its competitive advantages include:

- implementation of the Group's updated distribution strategy,
- implementation of projects designed to improve the efficiency of production processes,
- search for alternative sources of natural gas supplies,
- strengthening the Group'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 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 Group 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 the Parent (addition of 10 kt per year) and at Grupa Azoty PUŁAWY (addition of 70 kt per year). Extension of the PA6 product chain will be an additional benefit.
- The Parent is in the final stages of obtaining all required permits and approvals for construction of a new Modified Plastics Facility in Tarnów, within the Kraków Special Economic Zone, that will help further expand the PA6 product chain.
- Steps have been taken with a view to reducing China's share in Grupa Azoty PUŁAWY's sales through a continuation of the policy to diversify sales of caprolactam on the Asian market, strengthen the position of Grupa Azoty PUŁAWY in the European market and balance caprolactam volumes within the Grupa Azoty Group - regular supplies to ATT Polymers GmbH.
- The situation in the caprolactam and PA6 markets, particularly in Asia and in Europe, is monitored on an ongoing basis.
- 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 Parent 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 Group is active internationally as a member of European industry organisations, such as CEFIC, 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.

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

### 6.2.1. External factors with a bearing on the Group's business

According to estimates of the International Monetary Fund (IMF), the global economy's growth rate in 2014 did not change significantly year on year, and remained at approximately 3.3%. The economy is expected to accelerate in 2015-2016: the IMF forecasts the global GDP 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 estimates by the International Monetary Fund, the Polish economy is also expected to be on the recovery path, 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%. American Chemical Council 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

- Good prospects for the Polish economy.
- Stable albeit moderate growth prospects for the EU fertilizer market for the coming years: average annual consumption growth indicators until 2023 are as follows: 1.3% for nitrogen, 8% for phosphorous and 13.1% for potassium; moreover, for our part of the region these indicators are higher than for Western Europe and our cropped land ratio is 25% higher.
- A well-balanced agricultural policy of the European Union, based on supporting the agricultural sector through a system of direct and indirect subsidies, increases agricultural producers' purchasing power; Poland is one of the policy's major beneficiaries.
- Stable growth in consumption of liquid fertilizers, and especially liquid fertilizers individually composed for the needs of specific crops grown in specific areas.
- The policy currently pursued by Russia to limit exports of grains, that may to a certain extent halt the downward trend in their prices.
- Well-developing non-fertilizer segments of the fertilizer business, such as production of solutions for reduction of noxious gas emissions by the industrial and automotive sectors.
- Low prices of petrochemical feedstocks owing to low prices of crude oil.
- Rising new car registrations in Europe, including by about 6% annually in Germany.
- Upward correction of the 2015 GDP growth rate for the German economy.

#### Market threats

- Lingering economic slowdown in the European Union.
- EU's imports of fertilizers from regions with access to cheaper feedstock.
- Growing global urea production capacities.
- 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 Group'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. 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 Oxoplast segment, the range of plasticizers will be expanded to include next-generation products - non-phthalate plasticizers.

In the years ahead, the focus will be on projects related to power assets upgrading. The plants in Tarnów, Police, and Puławy will be brought in line with the requirements of the IED Directive on industrial emissions, and a new energy source will be built at the Kędzierzyn plant.

#### Strengths

- Nature of the business - revenue is derived from segments characterised by various seasonality and economic cycles (fertilizer products, B2B products, products used for reduction of noxious gas emissions). By diversifying the product portfolio, the Group is able to apply its financial resources to particular areas of operations, to reflect conditions prevailing in individual market segments.
- High level of technological integration.
- Leading position in the domestic market.
- Diversified gas supplies; the Group's strong bargaining position thanks to centralized procurement of natural gas.
- Stronger bargaining power in joint purchases of petrochemical feedstock, energy, and coal, enabling the Group to reduce costs.
- Complementary range of mineral fertilizers and development of the product portfolio to increase the share of speciality fertilizers.
- Own logistics terminals, including sea terminals.

#### 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.



### 6.3. Growth directions

Future growth directions for the Group are identified in the Grupa Azoty Group Strategy for 2013–2020, which sets out a vision of how the Group wants to grow its business 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 capital expenditure estimated at PLN 6bn to 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. Group's growth prospects and market strategy

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

#### Mineral fertilizers

In the period covered by the strategy, the focal area will be the mineral fertilizers sector, which is of key importance for the Group's operations.

The Group is consistently adding new products to its mix of liquid and specialist fertilizers, and other products and services for the agricultural sector.

The Company intends to increase its manufacturing capacity for mechanically granulated nitrate fertilizers. Also, ammonia lines will be upgraded, mainly to reduce energy-intensity and improve cost-effectiveness of the manufacturing processes.

#### 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 Group continues to increase the scale of production of polyamides and is seeking to fully balance the production capacities for caprolactam and polyamides. There are also plans to increase the scale of polyamide composite production.

#### Oxoplast

Main activities in the Oxoplast area will involve further expansion of the product portfolio. Work will continue on expanding the range of plasticizers offered to include next-generation products - non-phthalate plasticizers.

#### Pigments

The Police plant is expected to continue as the core facility of the Pigments segment. Planned work will focus on improving flexibility of the production line and expanding the product range to include products targeted at the most demanding customer groups.

#### Hydrogen peroxide

In 2015, prices of hydrogen peroxide are expected to grow by about 7-10% given the strong demand for and limited supply of the product, mainly in the northern part of Europe.

#### Melamine

In the Melamine segment, the Group intends to continue its product positioning strategy while it further optimises its logistics processes and potentially adds new distribution channels.

### Energy for the Group's own needs

In 2014–2020, the existing coal-powered co-generation facilities will continue as the main source of heat and electricity for the production plants in Tarnów and Police.

The existing CHP units will be gradually modernised, with the scope of upgrades adapted to the changing legal requirements, particularly the environmental regulations.

After 2015, heat and electricity in Kędzierzyn-Koźle will be generated at new units; construction of the first new generating unit has already commenced.

In Puławy, work will continue to build a power plant, whether single-handedly or with a strategic partner, to secure long-term energy needs of Grupa Azoty PUŁAWY. Independently of the new power plant project, a programme has been under way to perform the necessary upgrades of the existing in-house power installations.

The Group's ability to secure long-term access to heating power and electricity will mainly depend on the adopted legal regulations and market conditions.

The adopted product and market strategy will be supported by research and development activities carried out in partnership with third parties, while the Group will also use its own R&D resources, developed around the Tarnów Chemical Technology Research and Development Centre and the Puławy Competence Centre.

The main objective of the R&D activities is to develop knowledge-based competitive advantage which will facilitate development of a more innovative product, process and technology portfolio.

One of the key objectives of the current activities is to increase product diversification, in particular in speciality chemicals.

## 7. Qualified auditor

### Parent

The agreement with KPMG Audyt Sp. z o.o., executed on July 10th 2012, and Annex 1 thereto of October 15th 2013, cover the following:

- audit of separate and consolidated financial statements for the 12 months ended December 31st 2012, December 31st 2013 and December 31st 2014,
- review of separate and consolidated financial statements for the six months ended June 30th 2012, June 30th 2013 and June 30th 2014,
- organisation of workshops.

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

### Parent

Item	<i>KPMG Audyt Sp. z o.o.</i>	<i>KPMG Audyt Sp. z o.o.</i>
	2014	2013
Audit of the full-year separate and consolidated financial statements of the Parent and the Group	225	235
Review of the half-year separate and consolidated financial statements of the Parent and the Group	105	105
Other services	69	232
	<b>399</b>	<b>572</b>

#### Remuneration of KPMG companies for services rendered to the Group's subsidiaries

Item	2014	2013
Audit of the full-year separate and consolidated financial statements of the company and audit or review of consolidation package	975	1 262
Review of the half-year separate and consolidated financial statements of the company and review of consolidation package	212	287
Other services	298	263
	<b>1,485</b>	<b>1,811</b>

#### Remuneration of other qualified auditors for services rendered to the Group's subsidiaries

Item	2014	2013
Audit of the full-year separate and consolidated financial statements of the company and audit or review of consolidation package	154	159
Other services	-	17
	<b>154</b>	<b>176</b>

## 8. Litigation

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

#### ISARIOS Industriekapital AG's claim concerning ATT Polymers

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 Parent, 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 Grupa Azoty Group was under no obligation to return dividend. The ruling is final and cannot be subject to any ordinary legal remedies.

## 9. Parent's governing bodies

### 9.1. Remuneration and additional benefits

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

	Remuneration paid	Remuneration due	Total
Monika Kacprzyk-Wojdyga	192	-	192
Ewa Lis	168	-	168
Robert Kapka**)	296	-	296
Tomasz Klikowicz***)	218	-	218
Artur Kucharski	144	-	144
Marek Mroczkowski	144	-	144
Jacek Obłąkowski	168	-	168
Zbigniew Paprocki****)	277	-	277
Ryszard Trepczyński	144	-	144
	1,751	-	1,751

(\*) 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 the Parent's Management Board members for holding office at the Group, paid for the term of office

	Remuneration paid	Remuneration due	Severance pay	Total
Paweł Jarczewski	968	480	-	1,448
Andrzej Skolmowski	396	420	-	816
Witold Szczypiński	743	420	-	1,163
Marek Kaptucha	843	420	-	1,263
Marian Rybak	60	223	-	283
Krzysztof Jałosiński	180	255	-	435
Artur Kopec	518	270	-	788
Jerzy Marciniak	-	-	480	480
	3,708	2,488	480	6,676

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

	Remuneration paid	Remuneration due	Total
Andrzej Skolmowski	446	-	446
Witold Szczypiński	114	-	114
Marian Rybak	780	-	780
Krzysztof Jałosiński	660	-	660
	2,000	-	2,000

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

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

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

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

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

## 10. Statement of compliance with corporate governance rules

In accordance with section 29.5 of the Rules of the Warsaw Stock Exchange, the Management Board, acting pursuant to Resolution No. 1013/2007 of the Management Board of Warsaw Stock Exchange, hereby publishes the report on the Parent's compliance with the set of corporate governance rules laid down in the "Code of Best Practices for WSE Listed Companies" in 2014.

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

Having declared compliance with the highest capital market communication standards and principles of corporate governance, the Parent applies the "Code of Best Practices for WSE Listed Companies", prepared by the Warsaw Stock Exchange. The Code effective for 2013 was published as an Appendix to Resolution of the WSE Supervisory Board No. 20/1287/2011 of October 19th 2011. As of January 1st 2013 a new version of the Code of Best Practices, adopted by way of Resolution of the WSE Supervisory Board No. 19/1307/2013 of November 21st 2012, became effective.

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

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

Following amendments to the document "Best Practices for Companies Listed on the WSE" (the "Document"), effected by way of Resolution No. 19/1307/2012 of November 21st 2012 of the WSE Supervisory Board, the Parent's Management Board adopted the updated Document with effect as of January 1st 2013, with the following exceptions:

- Principle 9a in part II of the Document: "the Company maintains a corporate website and publishes information, other than required by law, as follows:  
9a) minutes from General Meetings in audio or video format".

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

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

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

#### **Incidental violations of the Code of Best Practice for WSE Listed Companies**

In 2014, no such events were recorded.

### **10.3. Internal control and risk management systems**

In 2014, the Parent 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 Parent, and the Risk Management Steering Committee was established.

The Parent'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 Parent'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 Parent to assess measures taken to mitigate risks in individual processes carried out at the Parent.

## 10.4. Shareholding structure

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

Shareholder	Number of shares	% of share capital	Number of votes	% votes
State Treasury	32,734,509	33.00	32,734,509	33.00
Norica Holding S.à.r.l. with Cliffstone Holdings Limited	15,216,094	15.34	15,216,094	15.34
ING OFE	9,883,323	9.96	9,883,323	9.96
TFI PZU S.A.	8,689,591	8.76	8,689,591	8.76
Aviva OFE				
Aviva BZ WBK	7,800,000	7.86	7,800,000	7.86
European Bank for Reconstruction and Development	5,700,000	5.75	5,700,000	5.75
Other	19,171,967	19.33	19,171,967	19.33
	99,195,484	100.00	99,195,484	100.00

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 Parent's Management Board received a notification of June 2nd 2014 from Aviva Powszechnie Towarzystwo Emerytalne Aviva BZ WBK S.A, to the effect that as a result of the sale of the Parent'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 Parent, representing 5.00% of its share capital (outstanding shares) and 4,960,249 votes at the Parent's 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 Parent, representing 4.29% of its share capital (outstanding shares) and 4,260,249 votes at the Parent's General Meeting, i.e. 4.29% of total voting rights.

Shareholding structure as at June 3rd 2014

Shareholder	Number of shares	% of share capital	Number of votes	% votes
State Treasury	32,734,509	33.00	32,734,509	33.00
Norica Holding S.à.r.l. with Cliffstone Holdings Limited	15,216,094	15.34	15,216,094	15.34
ING OFE	9,883,323	9.96	9,883,323	9.96
TFI PZU S.A.	8,689,591	8.76	8,689,591	8.76
European Bank for Reconstruction and Development	5,700,000	5.75	5,700,000	5.75
Other	26,971,967	27.19	26,971,967	27.19
	99,195,484	100.00	99,195,484	100.00



On June 11th 2014 the Parent'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
- Mr Viatcheslav Kantor, a citizen of Israel.

In the notification, the Parent 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 Parent shares, representing approximately 2.778% of its share capital and carrying 2,755,606 voting rights (approximately 2.778% of total voting rights) at the Parent's General Meeting. As a result, Norica increased its shareholding and voting rights in the Parent to above 20% of total voting rights at the Parent's General Meeting.

Prior to the Transaction, Norica held 17,086,094 Parent shares, representing approximately 17.225% of its share capital and carrying 17,086,094 voting rights (approximately 17.225% of total voting rights) at the Parent's General Meeting.

Following the Transaction, Norica holds 19,841,700 shares in the Parent, representing approximately 20.0026% of its share capital and carrying 19,841,700 voting rights (approximately 20.0026% of total voting rights) at the Parent'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 Parent's General Meeting and now holds 19,841,700 shares in the Parent, representing approximately 20.0026% of the Parent's share capital and carrying 19,841,700 voting rights (approximately 20.0026% of total voting rights) at the Parent'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 now holds 19,841,700 shares in the Parent, representing approximately 20.0026% of its share capital and carrying 19,841,700 voting rights (approximately 20.0026% of total voting rights) at the Parent's General Meeting.
- Subero, Acron's parent, has exceeded (indirectly through Norica) the 20% threshold of total voting rights at the Parent's General Meeting, and now holds 19,841,700 shares in the Parent, representing approximately 20.0026% of its share capital and carrying 19,841,700 voting rights (approximately 20.0026% of total voting rights) at the Parent's General Meeting.
- Mr Kantor, Subero's parent, has exceeded (indirectly through Norica) the 20% threshold of total voting rights at the Parent's General Meeting, and now holds 19,841,700 shares in the Parent, representing approximately 20.0026% of its share capital and carrying 19,841,700 voting rights (approximately 20.0026% of total voting rights) at the Parent's General Meeting.

Prior to the Transaction:

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

Mr Kantor also notified the Parent that aside from Norica none of his subsidiaries held any Parent shares.

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

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

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

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

Each of Mr 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 twelve months from the notification date they may from time to time, directly or indirectly, acquire or sell Parent shares.

#### Shareholding structure as at June 11th 2014

Shareholder	Number of shares	% of share capital	Number of votes	% votes
State Treasury	32,734,509	33.00	32,734,509	33.00
Norica Holding S.à.r.l. with Cliffstone Holdings Limited	19,841,700	20.00	19,841,700	20.00
ING OFE	9,883,323	9.96	9,883,323	9.96
TFI PZU S.A.	8,689,591	8.76	8,689,591	8.76
European Bank for Reconstruction and Development	5,700,000	5.75	5,700,000	5.75
Other	22,346,361	22.53	22,346,361	22.53
	99,195,484	100.00	99,195,484	100.00

On October 31st 2014, the Management Board of the Parent 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 Parent 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 Parent shares, representing approximately 0.0001% of the Parent's share capital and carrying 100 voting rights (approximately 0.0001% of total voting rights) at the Parent's General Meeting, (ii) on October 31st 2014 acquired 9,820,252 Parent shares, representing approximately 9.8999% of the Parent's share capital and carrying 9,820,252 voting rights (approximately 9.8999% of total voting rights) at the Parent's General Meeting, and as a result of the transactions exceeded the threshold of 5% of total voting rights at the Parent's General Meeting.

Prior to the transaction, Rainbee Holdings Limited had not held, whether directly or indirectly, any Parent shares.

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

Rainbee Holdings Limited notified the Parent that none of its subsidiaries held any Parent 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:

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

- a) Norica Holding S.à r.l. holds directly 10,021,348 Parent shares, representing approximately 10.1026% of the Parent's share capital and carrying 10,021,348 voting rights (approximately 10.1026% of total voting rights) at the Parent's General Meeting;
- b) Norica Holding S.à r.l. holds indirectly, through its subsidiary, Rainbee Holdings Limited, 9,820,352 Parent shares, representing approximately 9.8999% of the Parent's share capital and carrying 9,820,352 voting rights (approximately 9.8999% of total voting rights) at the Parent's General Meeting.

**Shareholding structure as at October 31st 2014**

Shareholder	Number of shares	% of share capital	Number of votes	% votes
State Treasury	32,734,509	33.00	32,734,509	33.00
Norica Holding S.à r.l.	10,021,348	10.10	10,021,348	10.10
ING OFE	9,883,323	9.96	9,883,323	9.96
Rainbee Holdings Limited <sup>*)</sup>	9,820,352	9.90	9,820,352	9.90
TFI PZU S.A.	8,689,591	8.76	8,689,591	8.76
European Bank for Reconstruction and Development	5,700,000	5.75	5,700,000	5.75
Other	22,346,361	22.53	22,346,361	22.53
	<b>99,195,484</b>	<b>100.00</b>	<b>99,195,484</b>	<b>100.00</b>

<sup>\*)</sup> A direct subsidiary of Norica Holding S.à r.l.

In the period from October 31st 2014 to the date of this Report, the Parent 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 Parent's Articles of Association, the State Treasury of Poland, as a shareholder, has an individual right to appoint and remove one member of the Supervisory Board. Furthermore, in accordance with Art. 43.1.3 and 43.1.4 of the Parent's Articles of Association, the General Meeting is convened by the Management Board:

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

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

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

## 10.6. Restrictions on voting rights

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

On March 15th 2013, the Parent'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 securities**

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

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

### **Rules governing appointment and removal of the management staff**

#### **Management Board**

In accordance with Art. 23.1 of the Parent's Articles of Association, the Parent'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 Parent's Articles of Association, any or all members of the Management Board are appointed and removed by the Supervisory Board, subject to the provisions of Art. 25 et seq. of the Articles of Association.

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

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

The Supervisory Board has the capacity to remove and suspend from duties any or all members of the Management Board, for a good reason, and to delegate members of the Supervisory Board, 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 Parent's Articles of Association).

#### **Supervisory Board**

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

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

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

The General Meeting appoints the Chairperson of the Supervisory Board.

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

#### **Power to make decisions to issue or buy back shares**

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

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

4. Within the limits of the Authorised Share Capital, the Management Board shall be authorised to offer Company shares, with the existing shareholders' pre-emptive rights waived, only to the

shareholders of Zakłady Azotowe Puławy S.A. of Puławy, entered into the Register of Entrepreneurs of the National Court Register under entry No. KRS 0000011737 ("ZA Puławy"), in exchange for a non-cash contribution in the form of shares in ZA PUŁAWY, so that one share in ZA PUŁAWY shall be deemed a non-cash contribution to cover 2.5 Company shares issued within the limits of the Authorised Share Capital. A Management Board's resolution to issue shares in exchange for a non-cash contribution in the form of shares in ZA PUŁAWY shall not require approval by the Supervisory Board.

5. In the Company's interest the Management Board is authorised to waive, in whole or in part, the existing shareholders' 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 Parent's Articles of Association

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

## 10.10. Operation of the General Meeting

The General Meeting is convened and prepared in accordance with the Commercial Companies Code, the Parent's Articles of Association and the Rules of Procedure for the General Meeting.

The Rules of Procedure for the General Meeting, adopted by way of a resolution of the General Meeting of June 26th 2009, define the rules for holding the meetings.

**The powers of the General Meeting** are defined in the Commercial Companies Code and Art. 51 of the Parent's Articles of Association.

In particular, the General Meeting has the authority to:

- review and approve the Directors' Report on the Parent's operations, the financial statements for the previous financial year, the consolidated financial statements and the Directors' Report on the Group's operations, if prepared by the Parent, as well as the annual written report of the Supervisory Board, and to grant discharge to members of the Parent's governing bodies in respect of their duties,
- adopt resolutions on distribution of profit or coverage of loss,
- adopt the Rules of Procedure for the General Meeting,
- amend the Parent's Articles of Association,
- change the Parent's business profile,
- approve the disposal or lease of, or creation of limited property rights in, the Company's business or its organised part,
- appoint and remove members of the Supervisory Board (subject to Art.16.2 and Art. 36 of the Articles of Association), and determine the remuneration amounts for members of the Supervisory Board,
- increase or decrease the Company's share capital,

- adopt resolutions on issue of notes, including notes convertible into shares,
- merge, demerge and transform the Parent,
- dissolve and liquidate the Parent,
- approve buyback of Parent shares for retirement and define the conditions for share retirement,
- adopt other resolutions as provided for in applicable laws or the Articles of Association.

### Shareholder rights and their execution

Shareholder rights are defined in detail in the Commercial Companies Code, the Act on Trading in Financial Instruments, the Public Offering Act and the Parent's Articles of Association.

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

### Parent's Management Board

Throughout 2014, there were no changes in the composition of the Parent'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 Kaptucha - 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.

At the beginning of April 2014, the Management Board of Grupa Azoty appointed Witold Szczypiński, Vice-President of the Management Board, to serve as Director General of the Parent.

The role of the Director General is to initiate and coordinate activities related to the day-to-day operational management of the Parent 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 Parent'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 Parent, and approves reports, documents and protocols related to the areas under his supervision.

The composition of the Parent'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 Kaptucha - 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 Jałosiński - Vice-President of the Management Board, responsible for strategy and development at the Grupa Azoty Group,
- Artur Kopeć - Member of the Management Board, responsible for social dialogue, technical safety and environmental protection at the Grupa Azoty Group.

The Parent's Management Board operates on the basis of:

- the Commercial Companies Code,
- the Act on Commercialisation and Privatisation of August 30th 1996, as amended,

- the Act on Public Offering, Conditions Governing the Introduction of Financial Instruments to Organised Trading, and Public Companies of July 29th 2005,
- the Act on Trading in Financial Instruments of July 29th 2005,
- and secondary legislation issued on the basis of the above acts,
- provisions of the Parent's Articles of Association.
- the Rules of Procedure for the Management Board,
- other internal regulations effective at the Parent.

### **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 Parent's Supervisory Board during its meeting held on January 9th 2015 passed a resolution to appoint the Parent'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 Jałosiński - 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 10th 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 Parent'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 Parent'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 Parent'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**

Throughout 2014, there were no changes in the composition of the Parent's Supervisory Board. Composition of the Parent's Supervisory Board as at the date of issue of this Report:

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



The Supervisory Board operates on the basis of:

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

### **Powers and responsibilities of the Supervisory Board**

The powers and responsibilities of the Supervisory Board are defined in Article 33 of the Parent's Articles of Association.

To streamline its work and improve control over the Parent 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 Obłąkowski - 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,
- review of selected economic events relevant to the Company's operations.

This Directors' Report on the Operations of Grupa Azoty S.A. for the 12 months ended December 31st 2014 contains 114 pages.

#### 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 Kopec  
*Member of the Management Board*

Tarnów, March 10th 2015