



Directors' Report  
on the Operations of Grupa Azoty S.A.  
for the 12 months ended  
December 31st 2015

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## 1. General information on Grupa Azoty S.A.

### 1.1. Company overview

Grupa Azoty S.A. is the Parent of the Grupa Azoty Group. Its key operational areas include nitrogen fertilizers, engineering plastics and intermediates manufacturing, sale and related services.

The Company has its own research facilities. It concentrates both on research into new products and technologies, and on development of the existing products. Grupa Azoty S.A. has been listed at the Warsaw Stock Exchange since June 30th 2008. It is included in the WIG, WIG30, mWIG 40, WIG-Poland, and WIG-CHEMIA indices, as well as the Respect Index. Its shares are also a constituent of foreign indices: MSCI Emerging Markets and FTSE Emerging Markets.

The Parent's registered office is in Tarnów, at ul. Kwiatkowskiego 8. Since April 22nd 2013, the Company has been trading under its new name Grupa Azoty Spółka Akcyjna (abbreviated to Grupa Azoty S.A.).

Grupa Azoty S.A. is an integrated manufacturer of polyamide 6, marketed as Tarnamid®, and also specialises in manufacturing of nitrogen fertilizers (nitrogen-sulfur and nitrate).

### 1.2. Key information

The operations of Grupa Azoty S.A. comprise four segments:

**Agro Fertilizers** – the segment mainly produces nitrogen fertilizers, including in particular nitrogen-sulfur fertilizers. It also offers nitrate fertilizers and nitrogen-based intermediate products (nitric acid, nitrating products, etc.). The Company is the leading manufacturer of nitrogen-sulfur fertilizers in Poland and a major player on the EU market.

**Plastics**– the segment includes mainly engineering plastics (polyamide 6 and modified plastics, such as enriched plastics based on polyamide 6, POM, PP, PBT, or PA66) and intermediates (caprolactam). Grupa Azoty S.A. is the largest polyamide 6 producer in Poland and a recognisable name in the European Union.

**Energy** – the segment comprises production of electricity and heat, mainly for the purposes of the Company's chemical units. Outside the Group, the segment's products are sold on the electricity and heating water market to local customers. Grupa Azoty S.A. operates its own electricity and energy carrier distribution network.

**Other Activities** – the segment comprises production and services supporting all areas of the Company's business. Its key activities are production of catalysts (used in selected chemical synthesis processes), rental of real estate, IT and telecommunications services, etc.

### 1.3. Organisational and equity ties between the Company and other entities

Grupa Azoty S.A. is the Parent of the Grupa Azoty Group, one of the key players on the European fertilizer and chemical markets. The Group was formed through the consolidation of leading companies with different traditions and complementary business profiles. Thanks to its carefully designed structure, the Group offers a diverse product mix, ranging from mineral fertilizers and engineering plastics to OXO alcohols and plasticizers.

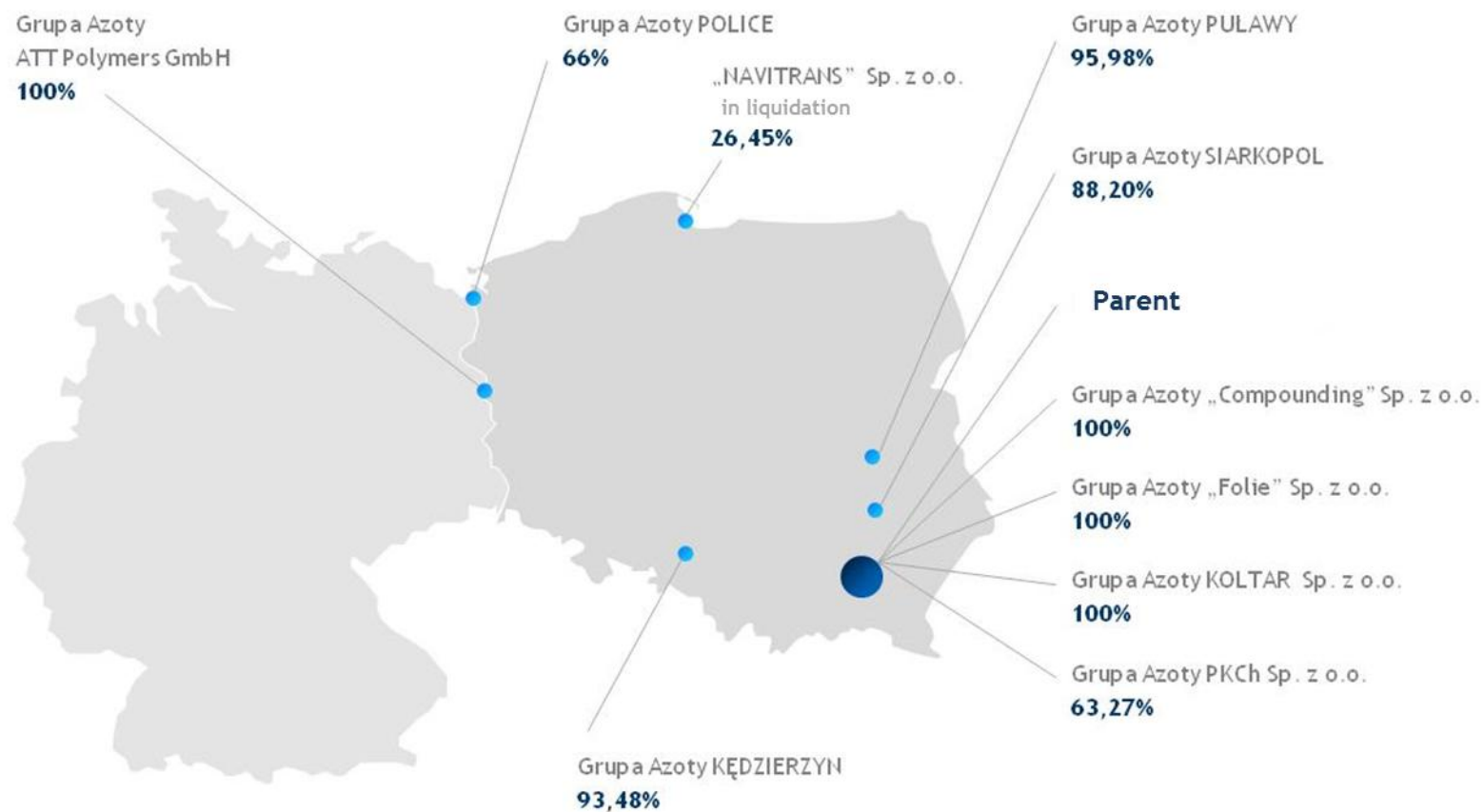
**The Company's shareholdings in subsidiaries as at December 31st 2015**

			(currency)
Company	Registered office/address	Share capital	% of shares held directly
Grupa Azoty ATT Polymers GmbH	Forster Straße 72 03172 Guben, Germany	EUR 9,000,000	100.00
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 5,500,000	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	al. Tysiąclecia Państwa Polskiego 13 24-110 Puławy, Poland	PLN 191,150,000	95.98
Grupa Azoty KĘDZIERZYN	ul. Mostowa 30 A skr. poczt. 163 47-220 Kędzierzyn-Koźle, Poland	PLN 285,064,300	93.48
Grupa Azoty SIARKOPOL	Grzybów, 28-200 Staszów, Poland	PLN 55,000,000	88.20
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

**Material non-controlling interests held by the Company as at December 31st 2015**

Company	Ownership interest (%)
Tarnowskie Wodociągi Sp. z o.o.	12.39%

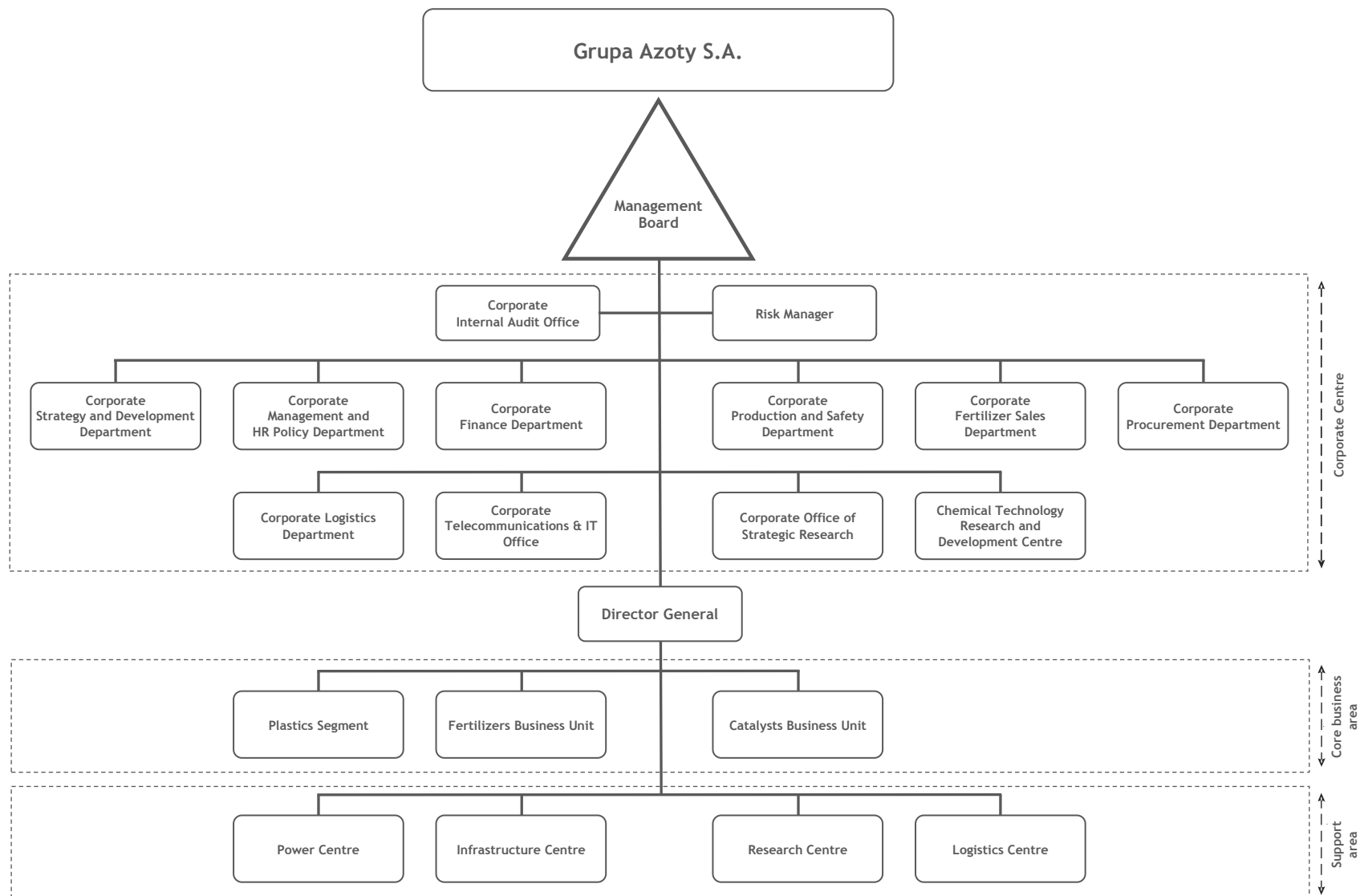
## The Company and its subsidiaries as at December 31st 2015



Source: Company data.

## 2. Management policy

### 2.1. Organisational chart



## 2.2. Changes in key management principles

### Consolidation – the Company management model

The Company management model is similar to that adopted for the Group.

Formal and legal actions completed:

- Preparation and implementation of Internal Audit Standards for the Grupa Azoty Group and Internal Audit Rules for the Company;
- Preparation and implementation of the Financing and Liquidity Management Policy for the Grupa Azoty Group;
- Preparation and implementation of the Financial (Currency and Interest Rate) Risk Management Policy for the Grupa Azoty Group;
- Preparation and implementation of naming standards for companies of the Grupa Azoty Group;
- Preparation and implementation of the Strategy of Technical Maintenance and Asset Life Cycle Management at the Grupa Azoty Group;
- Preparation and implementation of a joint model for managing CO<sub>2</sub> emission allowances at the Grupa Azoty Group;
- Preparation and implementation of the Framework Procedure for disposal of perpetual usufruct rights, ownership rights to real property, or interest in such rights, at the Grupa Azoty Group;
- Preparation and implementation of a procedure to be followed in the event of inspection by the Polish Office of Competition and Consumer Protection (UOKiK) or the European Commission at the Grupa Azoty Group;
- Preparation and implementation of a procedure to be followed before the execution of agreements for the provision of services or delivery of raw materials or consumables at Grupa Azoty S.A. and for joint procedures at the Grupa Azoty Group;
- Preparation and implementation of the document drafting policy for related-party transactions within the Grupa Azoty Group;
- Preparation and implementation of coal procurement management rules at the Grupa Azoty Group;
- Preparation and implementation of guidelines on submitting and preparing investment plans at the Grupa Azoty Group;
- Preparation and implementation of the Integrated Investment Management System Instruction at the Grupa Azoty Group;
- Preparation and implementation of methodological assumptions for efficiency analysis of investment projects at the Grupa Azoty Group;
- Preparation and implementation of guidelines for the allocation of umbrella facility sublimits between Grupa Azoty Group companies;
- Preparation and implementation of the Compliance Management Policy at the Grupa Azoty Group.

Organisational actions taken:

- Establishment of the standing Finance Committee at the Grupa Azoty Group;
- Establishment of the Procurement Committee at the Grupa Azoty Group;
- Establishment of the EU ETS Management Committee and the EU ETS Executive Team for the purposes of the CO<sub>2</sub> emission allowances joint management model;
- Expansion of the Risk Management Steering Committee;
- Establishment of the Expert Committee and the Task Team for the development of a joint HR strategy at the Grupa Azoty Group.

## 2.3. Workforce

Number of employees at Grupa Azoty S.A.

Employee group	as at Dec 31 2015	as at Dec 31 2014
blue collar employees	1,278	1,303
white collar employees	799	785
<b>Total</b>	<b>2,077</b>	<b>2,088</b>



#### Number of employees at Grupa Azoty S.A.: average for the year and as at the end of 2015

Employee group	average annual	as at Dec 31 2015
blue collar employees	1,293	1,278
white collar employees	797	799
<b>Total</b>	<b>2,090</b>	<b>2,077</b>

#### Employee turnover from January 1st to December 31st 2015

Item	2015
New hires	51
Terminated employees	62

#### Workforce structure by education

Description	Year	Total workforce	University or equivalent	Secondary	Vocational	Primary
Number of employees	2015	2,077	554	859	562	102
Number of employees	2014	2,088	522	836	614	116

#### Workforce structure by length of service

Description	Year	up to 5 years	6-10 years	11-20 years	above 20 years
Number of employees	2015	298 14.4%	117 5.6%	384 18.5%	1 278 61.5%
Number of employees	2014	265 12.7%	148 7.1%	424 20.3%	1 251 59.9%

### 3. Business overview

#### 3.1. Overview of key products

##### AGRO FERTILIZERS

##### Nitrogen fertilizers

Nitrogen fertilizers are substances or mixtures of substances where nitrogen is the primary plant nutrient. The Company offers nitrogen-sulfur fertilizers (ammonium sulfate nitrate, ammonium sulfate) and nitrate fertilizers (calcium ammonium nitrate, ammonium nitrate). Ammonia from natural gas is the key feedstock in the production of nitrogen fertilizers.

##### Nitrogen-sulfur fertilizers

Application of such fertilizers leads to improved sulfur content in the soil, boosting the quality of crops.

- Ammonium sulfate is a simple nitrogen fertilizer with sulfur, containing 21% nitrogen and 24% sulfur. It is a by-product in the manufacture of caprolactam. Grupa Azoty S.A. manufactures a wide range of ammonium sulfate in various granule forms and sizes: selection, macro, standard and crystalline.
- Saletrosan®, or ammonium sulfate nitrate, is a nitrogen fertilizer with sulfur, made as a result of mixing ammonium nitrate and ammonium sulfate, containing 26% nitrogen and 13% sulfur.

##### Nitrate fertilizers

- Ammonium nitrate is a nitrogen fertilizer which is easily dissolved in water, Grupa Azoty S.A. offers "30 makro" ammonium nitrate.

- 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. Grupa Azoty S.A. offers "27 standard" calcium ammonium nitrate and CAN with boron.

### Ammonia

It is feedstock for the manufacture of fertilizers, produced in a process of direct synthesis of nitrogen (derived from the air) and hydrogen (obtained from natural gas). Ammonia is the basic intermediate product used to manufacture nitrogen fertilizers and compound fertilizers. It is also used in the chemical industry, e.g. for production of caprolactam or polymers, or as a cooling agent.

## PLASTICS

### Engineering plastics

Engineering plastics are a group of products which exhibit high thermal resistance and good mechanical properties. The wide range of the products' beneficial properties means that they are used in many industries, including automotive, construction, electrical engineering, household goods and the food and textile industries.

Grupa Azoty S.A. manufactures polyamide 6 (PA6) and modified plastics (with admixtures affecting the physical and chemical properties of the final plastics) based on polyamide 6 and other engineering plastics (POM, PP, PBT, PA6.6). It also offers dedicated plastics with composition meeting the requirements of individual customers.

**Polyamide 6 (PA6)**, marketed as Tarnamid®, is a high-quality engineering thermoplastic in granular form for injection processing. It is the leading product among engineering plastics.

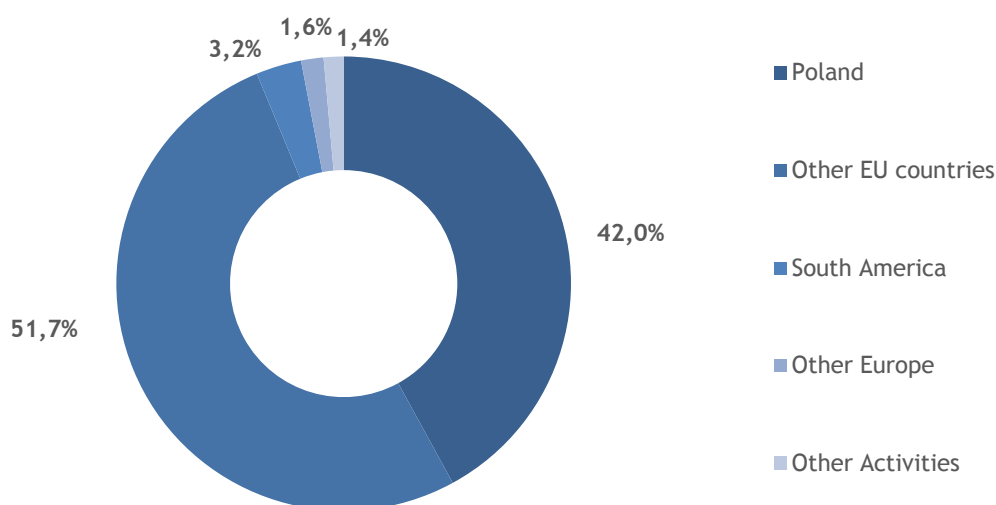
### Caprolactam

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.

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

The Company products are mainly marketed in EU countries, in particular Poland and Germany. Fertilizers are the key product sold on the domestic market. Exported to the EU and Asia are mainly plastics, and to South America – fertilizers.

### Sales by geographies in 2015 (by revenue)



Source: Company data.

In 2015, the Company had one customer with a more than 10% share in its revenue, namely Grupa Azoty ATT Polymers GmbH, a subsidiary.

### **Sources of strategic raw materials**

For the most part, the Company procures its manufacturing materials, merchandise and services on the domestic and EU markets. Moreover, raw materials supplied by Group companies, i.e. ammonia and sulfur, account for a significant share in the raw materials structure.

#### **Phenol**

The procurement strategy for phenol is based primarily on supplies from the domestic and the EU markets, supplemented with deliveries from outside Europe. The situation on the phenol market in 2015 was largely driven by developments on the market of benzene (which is the principal component of phenol pricing formulae) and supply and demand volatility related to high fluctuations of prices quoted on the key European markets. Grupa Azoty S.A. secures supplies for its own needs under long-term contracts concluded directly with Europe's largest phenol producers.

#### **Ammonia**

The procurement strategy in this area is based on optimisation of ammonia supplies within the Grupa Azoty Group – the feedstock coming mainly from the installations in Police is used for production purposes in Tarnów, where it is delivered using own transport means. Supplementary spot supplies from Kędzierzyn and Puławy are also an available option. Intragroup supplies are executed on market terms, which depend to a large extent on the general conditions in the fertilizer industry and on the gas prices effectively paid by the largest gas consumers in Poland and in the region.

#### **Natural gas**

PGNiG S.A. supplied the Company with high-methane gas and gas from local sources under long-term contracts. Supplies from other trading partners were executed under short-term contracts. In 2015, Grupa Azoty S.A. satisfied 76.8% of its gas requirements with supplies from PGNiG S.A., which included 50.1% of nitrogen-rich gas from local sources. The balance, or 23.2%, was sourced from other suppliers. Grupa Azoty S.A. had one supplier whose share in the total cost of raw materials exceeded 10% – PGNiG S.A.

#### **Benzene**

Benzene is mainly delivered under one-year contracts, with supplementary purchases made on the spot market. Benzene is sourced chiefly from domestic and CEE suppliers. The 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.

#### **Coal**

The Company purchases coal on the domestic market. Purchasing large volumes of coal of required quality from geographically remote markets is becoming economically unviable.

Prices of pulverised coal used in the power sector are driven by ARA rates, and the scale of the Polish mining industry is too small to affect global prices.

The Company's strategy in this area is based on purchases under contracts with a price guarantee. The contracts secure supplies to meet the Company's future coal supply requirements.

#### **Sulfur**

Grupa Azoty S.A. is the largest producer and consumer of liquid sulfur on the domestic market and in the region. Its sulfur procurement strategy is based on optimising supplies from sources within the Grupa Azoty Group (Grupa Azoty SIARKOPOL) and on supplies of petrochemical sulfur. This approach gives Grupa Azoty S.A. considerable flexibility in securing supplies, and significantly reduces the risk of supply limitations.

Due to the supply chain optimisation, sulfur for the Tarnów units is sourced mainly from the Group's mine, with supplementary purchases of petrochemical sulfur.

Moreover, the Grupa Azoty Group has the largest logistics facilities in Poland, which gives it additional competitive advantage. A centralised sulfur procurement strategy enables the Group to significantly reduce the cost of this raw material.

## Electricity

The Company purchases electricity from major Polish suppliers, i.e. PGE S.A., TAURON Polska Energia S.A. and ENEA S.A. As a result of tenders held in 2015, the Company signed dedicated transaction contracts under existing framework agreements following tender procedures within the Grupa Azoty Group, and negotiated electricity prices which were several per cent lower than in 2014. 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 Company followed a policy of purchasing electricity under short-term contracts.

### 3.3. Significant agreements

The agreements are presented in chronological order.

#### Significant agreements

##### Revolving credit facility agreement

On April 23rd 2015, the Company as the borrower and a consortium of Polish banks comprising PKO BP S.A., BGK, BZ WBK S.A. and ING BSK S.A. as joint lenders entered into a five-year syndicated revolving credit facility agreement for a total amount of PLN 1.5bn. The facility proceeds are to be used, among other things, to refinance selected financing arrangements, and then to finance investment plans and other objectives defined in the long-term Strategy for the Group.

The agreement meets the significant reportable agreement criteria because its value exceeds 10% of Grupa Azoty's total revenue.

The revolving credit facility agreement is part of a long-term PLN 2.2bn financing package, intended for financing Grupa Azoty's general corporate needs, including the Strategy and the Investment Programme

(for details, see Current Report No. 25/2015 of April 23rd 2015).

Additionally, on May 28th 2015, the Company concluded credit facility agreements for long-term financing in a total amount of PLN 700m with the European Investment Bank of Luxembourg ("EIB") and the European Bank for Reconstruction and Development of London ("EBRD").

The agreements with EIB and EBRD form an integral part of a long-term PLN 2.2bn financing package, intended for financing Grupa Azoty's general corporate needs, including the strategy and the investment programme.

#### Material agreements

##### The Group's material insurance agreements

- On February 4th 2015, the Company entered into a master agreement concerning all-risk construction and assembly insurance under an insurance pool set up by WARTA, PZU, and Ergo HESTIA. The agreement is effective from February 5th 2015 to February 4th 2016 and covers the Group companies. Subsequent to the end of the reporting period, the agreement was extended until June 30th 2018.
- On June 30th 2015, the insurers issued insurance policies for four leading companies of the Group, i.e. Grupa Azoty S.A., Grupa Azoty KĘDZIERZYN, Grupa Azoty POLICE, and Grupa Azoty PUŁAWY, covering:
  - all-risk property insurance (ALLR),
  - all-risk electronic equipment insurance (EEI),
  - loss of profit insurance ALLR (BI),
  - all-risk machinery insurance (MB),
  - third-party liability insurance for businesses and property owners (OC).

Moreover, on July 3rd 2015, Ergo HESTIA, PZU and WARTA as coinsurers issued annual property insurance policies covering property in domestic and international transport for the four leading companies of the Group.

The insurance policies cover the period from July 1st 2015 to June 30th 2016 and were issued under three-year master agreements signed by the four leading companies of the Group with the policy issuers, effective from July 1st 2015 to June 30th 2018, which provide the Group with comprehensive insurance against disaster and material risks.

- On September 16th 2015, the Group renewed the directors and officers liability insurance policy executed with PZU S.A. The agreement is effective from September 17th 2015 to September 16th 2016 and covers the Group companies.
- On December 14th 2015, the Group companies renewed their automobile insurance cover by entering into a framework agreement and master agreements with Ergo Hestia for a period of three years, from January 1st 2016 to December 31st 2018. Annual insurance policies were issued under the agreements.

Moreover, on June 30th 2015, an annex was executed to the broker agreement of May 31st 2013, concluded between the leading Group companies and a consortium of brokers (comprising Nord Partner Sp. z o.o. and FST Management Sp. z o.o.) for a period of one and a half years, i.e. from July 1st 2015 to December 31st 2016. The broker agreement provides for insurance brokerage and consulting services.

#### **EU financing agreements**

- On August 31st 2015, the Company received PLN 140 thousand as the first tranche of financing under an agreement concluded on March 30th 2015 between the National Centre for Research and Development of Warsaw and the New Chemical Syntheses Institute of Puławy, the leader of a consortium including the Company. The funds were granted to co-finance a project implemented as part of the Applied Research Programme, Path B: comprehensive processing of waste streams containing sodium sulfate with the use of electromembrane methods, with a view to obtaining a solution of soda lye and sulfuric acid.
- On September 16th 2015 and December 30th 2015, the Company received the first (PLN 915 thousand) and the second (PLN 255 thousand) tranche of financing under an agreement concluded on June 30th 2014 with the Minister of Environment, represented by the National Fund for Environmental Protection and Water Management of Warsaw, for the project: flue gas treatment unit at Zakłady Azotowe w Tarnowie-Mościcach S.A. The project was co-financed under the Norwegian Financial Mechanism 2009-2014.

### **3.4. Significant events**

#### **Construction of fertilizer granulation plant**

On July 1st 2015, the commencement act was signed and set in, marking the groundbreaking ceremony for the second fertilizer granulation plant - the largest project currently under way in the fertilizer segment in Tarnów. The project will help enhance the product portfolio, while doubling the production capacities of Saletrosan® (ammonium sulfate nitrate) and other mechanically granulated fertilizers.

#### **Construction of new polyamide 6 plant**

On September 21st 2015, the commencement act for a new polyamide 6 (PA6) plant was signed. The project, worth PLN 320m, will allow Grupa Azoty to expand its annual PA6 production capacities to 170 thousand tonnes.

#### **Strategic cooperation between Grupa Azoty and PKO BP S.A.**

On February 6th 2015, Grupa Azoty and PKO BP S.A. executed a strategic cooperation agreement whereby the bank agreed to provide financing for the Grupa Azoty's financial partners from the agricultural and food industry, and the parties agreed to use Grupa Azoty's fertilizer distribution network to sell banking products and engage in joint marketing activities targeted at agricultural producers.

#### **Execution of agreements for the financing of Grupa Azoty's strategic investment projects**

The financing for the first stage of the strategic investment projects was secured through a PLN 2.2bn long-term credit facility package, which is to finance the Group's general corporate needs envisaged in the Grupa Azoty Group's Strategy and Investment Programme until 2020, including its plans to expand into new regional markets.

A credit facility of PLN 1.5bn was provided by a consortium of PKO S.A., BGK, BZ WBK S.A. and ING BSK S.A. under a consortium agreement of April 23rd 2015. The facility is repayable by April 2020.

The remaining part will be financed by the European Investment Bank (EIB) and the European Bank for Reconstruction and Development (EBRD) pursuant to a PLN 700m long-term financing

agreement, executed at the EBRD London headquarters on May 28th 2015. The agreement provides for ten-year credit facilities (repayable in June 2015) of PLN 550m and PLN 150m, to be granted by the EIB and the EBRD, respectively.

## Grupa Azoty in FTSE Emerging Markets

On March 4th 2015, the Company was selected to feature in the prestigious FTSE Emerging Markets index. The Company stock has been listed in the index since March 23rd 2015. The FTSE Emerging Markets index is part of the FTSE Global Equity Index Series (GEIS), which includes large and mid cap securities from advanced and secondary emerging markets. With a universe of 911 companies from all over the world, including 30 CEE names, the index provides investors with a comprehensive means of measuring the performance of the most liquid companies in emerging markets. Its aggregate net market capitalisation is close to USD 3,400bn. The FTSE indices are listed on the London Stock Exchange.

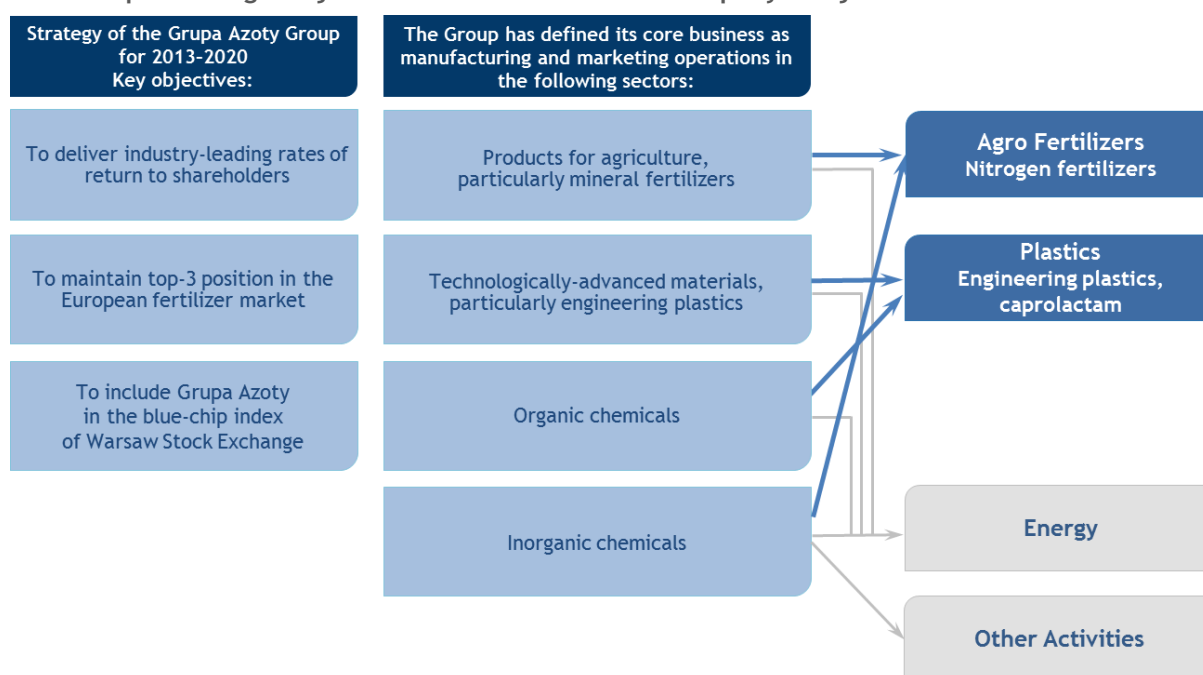
## 4. Growth strategy and policy

### 4.1. Strategy and growth directions

Grupa Azoty S.A.'s growth directions form an integral part of the Group's Strategy. They are identified in the Grupa Azoty Group's 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.

The Strategy defines the Group's key strategic objectives in the main product areas with respect to innovations, operations, sales and financial policy. The Strategy outlines the corporate management objectives and methodology applied across the Group.

#### The Group's strategic objectives translated into the Company's objectives



Source: Company data.

Basing on the Grupa Azoty Group's Strategy, by 2020 the Company's core segments will be value-creating business segments (Agro Fertilizers, Plastics) and the supporting segments (Energy - for the Group's own needs, Other Activities), with potential for entry into new segments, including new plastics and professional power generation.

The Group's 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, including more than PLN 1.1bn in Tarnów;
- 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).

#### Strategic areas



Source: Company data.

The Operationalisation of the Grupa Azoty Group's Strategy lists 68 strategic investment and/or marketing projects designed to build the value of the individual segments or of the entire Group (corporate projects – involving more than one segment or implemented at more than one location). The operationalisation also defines directions of activity in the M&A area.

#### Corporate objectives



Source: Company data.

#### Mission

"We add life to the soil, and colour to life.

With our accumulated experience and expanding capabilities, we make chemicals safe and useful to people. We consistently strive to increase the value of Grupa Azoty, taking advantage of all available synergies and innovations."

#### Vision

"By the end of this decade:

- We will be included in the blue-chip index of the Warsaw Stock Exchange.
- We will deliver industry-leading rates of return for our shareholders.
- We will remain one of the three leading players in the European fertilizer market."

## 4.2. Growth prospects and market strategy

Below are presented key strategic objectives of Grupa Azoty S.A. in each segment, including core products.

### Agro Fertilizers

In the period covered by the strategy, the focal area will be the mineral fertilizers sector, which is of key importance to the Group's operations. Nitrogen fertilizers will be an essential product category.

In this area, the Company intends to increase its manufacturing capacities for mechanically granulated nitrate fertilizers. Also, production lines are being upgraded, mainly to reduce energy-intensity and improve cost-effectiveness of the manufacturing processes.

### Plastics

In the period covered by the strategy, polyamide 6 will remain the key element of the Company's engineering plastics portfolio. The Company is increasing the scale of polyamides production and balancing the production capacities for caprolactam and polyamides. There are also plans to increase the scale of polyamide composite (enriched modified plastics) production.

### Energy

By 2020, the existing coal-powered co-generation facility will continue as the main source of heat and electricity for the production plant in Tarnów. The existing CHP unit will be gradually modernised, with the scope of upgrades adapted to the changing legal requirements, particularly the environmental regulations.

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

### Other Activities

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

The main objective of the R&D activities is to build 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.

## 4.3. Key investments in Poland and abroad

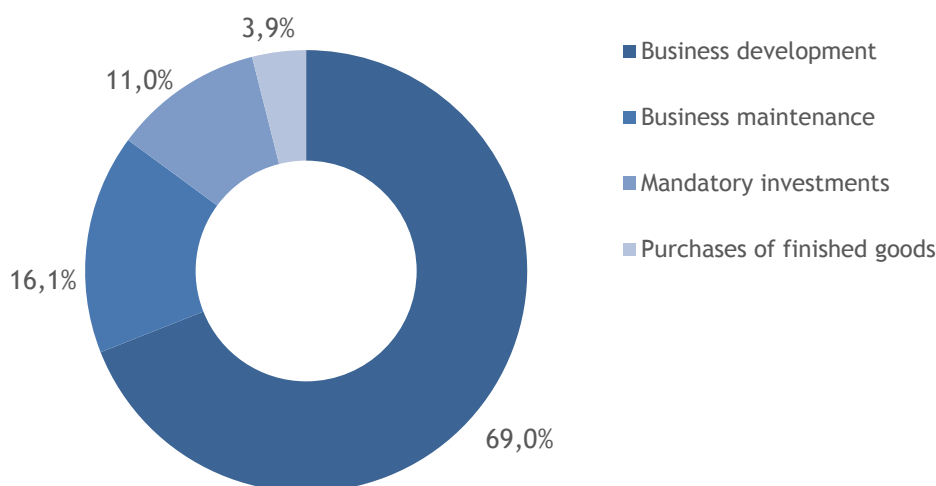
Presented below is the Company's capital expenditure, excluding repairs of components, but including advances paid and settled.

Structure of capital expenditure:

• Business development	PLN 177,188 thousand
• Business maintenance	PLN 41,301 thousand
• Mandatory investments	PLN 28,154 thousand
• Purchase of finished goods	PLN 10,113 thousand



## Structure of capital expenditure in 2015



Source: Company data.

## Key investment projects implemented by the Grupa Azoty S.A.

Project name	Project budget	Expenditure incurred	Expenditure incurred in 2015	Project description	Scheduled completion date
Polyamide plant II 80 thousand t/y	320,000	88,221	85,896	To utilise the Group's caprolactam output in a more efficient manner	2016
Granulation plant II	141,000	41,204	35,672	To optimise the mix of fertilizer products and improve value added in ammonium sulfate	2016
Bulk fertilizer storage facility	43,000	42,967	32,347	To season and store in appropriate conditions Saletrosan® 26 Makro (macro granules ASN) and Saletrzak 27 Makro (macro granules CAN)	2016 (currently in the start-up and testing phase)
Intensification of cyclohexanone manufacturing from phenol	25,750	19,168	18,765	To reduce the cost of producing cyclohexanone from phenol and increase cyclohexanone output	2015 (completed)
New iron-chromium catalyst plant	27,700	3,001	2,851	To scale up business growth in the catalyst segment, further improve the catalyst quality, create expansion opportunities, and increase the customer base	2016
Increase in ammonia production capacities	44,500	4,306	4,139	To increase the Group's own output of ammonia by ca. 100 t/d	2016
Flue gas desulfurization unit	45,400	11,167	10,794	To reduce sulfur dioxide and dust emissions from CHP Plant's Boiler No. 5, meet the emission standards laid down in the IED Directive, and ensure the continuity of power and heat production	2016
Flue gas denitrification unit	44,600	17,205	16,832	To reduce NOx emissions from CHP Plant's Boiler No. 5, meet the emission standards laid down in the IED Directive, and ensure the continuity of power and heat production	2016
20 MW pass-out and condensing turbine generator set at the CHP Plant	63,000	33,557	25,462	To optimise the loads of the existing back-pressure turbine generators	2016

Project name	Project budget	Expenditure incurred	Expenditure incurred in 2015	Project description	Scheduled completion date
Construction of a new technical-grade nitric acid storage unit – Phase 1	15,000	269	269	To replace the existing worn out technical-grade nitric acid storage unit with a new one	2017

#### 4.4. Equity investments

##### Share capital increase at Grupa Azoty Folie Sp. z o.o.

The Extraordinary General Meeting of Grupa Azoty Folie Sp. z o.o., held on September 11th 2015, passed a resolution to increase the company's share capital by PLN 5,495 thousand, to PLN 5,500 thousand. The increase was registered in the National Court Register.

On October 1st 2015, Grupa Azoty S.A. subscribed for the company shares with a total par value of PLN 5,495 thousand and paid for them in cash.

##### Acquisition of employee shares in Grupa Azoty SIARKOPOL

In accordance with the provisions of the agreement on sale of shares in Grupa Azoty SIARKOPOL of September 25th 2013 and the provisions of the Social Package, since November 2015, the Company has been buying out shares held by employees of Grupa Azoty SIARKOPOL and their heirs. Up to 825,000 shares are to be purchased as part of the buy-out. As at December 31st 2015, the Company purchased 176,017 shares; consequently, its share in Grupa Azoty SIARKOPOL's share capital increased from 85% to 88.20%. By the date of release of the 2015 report, the Company executed the following transactions to purchase shares in Grupa Azoty SIARKOPOL:

- On January 14th 2016, it purchased 68,119 shares for PLN 68.45 per share and for a total amount of PLN 4,663 thousand, thus increasing its interest in the company's share capital to 89.44%;
- On February 9th 2016, it purchased 187,410 shares for PLN 68.45 per share and for a total amount of PLN 12,828 thousand, thus increasing its interest in the company's share capital to 92.85%;
- On March 1st 2016, it purchased 187,759 shares for PLN 68.45 per share and for a total amount of PLN 12,852 thousand, thus increasing its interest in the company's share capital to 96.26%;

##### Share capital increase at Grupa Azoty Automatyka Sp. z o.o.

The Extraordinary General Meeting of Grupa Azoty Automatyka Sp. z o.o., held on December 17th 2015, passed a resolution to increase the share capital of Grupa Azoty Automatyka Sp. z o.o. by PLN 107 thousand, to PLN 4,654 thousand, by issuing 214 new shares with a par value of PLN 500 per share, to be subscribed for by new shareholders (the company's employees), with the pre-emptive rights of the existing shareholders waived. The increase was registered with the National Court Register on January 27th 2016.

#### 4.5. Feasibility of investment plans

In 2015, the Company incurred capital expenditure of PLN 256,756 thousand, which it financed with internally generated funds, proceeds from the long-term credit facility package and, to a lesser extent, with lease arrangements and grants.

Under the centralised Financing Model implemented at the Group, the Company signed a long-term credit facility package for a total amount of PLN 2,200m for the financing of its investment plans and other objectives outlined in the Group's long-term Strategy:

- In April 2015, the Group gained access to a syndicated revolving credit facility of PLN 1,500m, which was partially used to refinance the existing financing agreements (up to PLN 717m); the remaining credit facility limit available as at December 31st 2015 stands at PLN 783m;
- In May 2015, the Company signed a long-term credit facility agreement with the EIB (PLN 550m) and with the EBRD (PLN 150m) for the financing of certain investment projects defined in the Group's strategy; after the conditions to disbursement were satisfied, the Company drew EUR 50m (equivalent of PLN 213m) under the EIB facility and PLN 10m under the EBRD facility to finance its investment projects; the remaining limit available under both credit facilities as at December 31st 2015 stands at PLN 477m.

Furthermore, the Company is able to finance its investment plans using either current or expected free operating cash flows (EBITDA), as well as credit facilities secured under the "New Financing" package in 2015.

Given the maximum acceptable levels of financial ratios agreed upon with the strategic lenders, the Company can further increase its external funding without the risk of breaching covenants under the abovementioned credit facility package, or secure separate financing for investment projects implemented by SPVs on a project finance basis.

#### 4.6. Significant R&D achievements

In keeping with the R&D strategy adopted by the Grupa Azoty S.A., research projects implemented in 2015 focused on:

- Improving product quality,
- Streamlining the operation of selected production lines,
- Developing innovative product technologies.

Most R&D projects consisted in continuation or extension of work started in previous years. In implementing those projects, the Company closely cooperated with a number of universities and scientific institutions.

The most important R&D initiatives in 2015 included:

- Enhancement of the fertilizer manufacturing process through appropriate selection of inorganic additives and anti-caking agents,
- Comprehensive assessment of the effectiveness and benefits of a new fertilizer with reduced sulfur content – Saletrosan® 30 makro in the case of selected crops,
- Development of new varieties of modified plastics, with the use of various additives enabling specialist application of the plastics,
- A series of research projects designed to reduce caprolactam manufacturing costs and further improve the product quality through optimised operation of selected process units,
- Development of new product technologies,
- Feasibility studies into the possibility of entering new areas of business,
- Launch of a project to develop technologies for decomposition of waste sodium sulfate solutions into sulfuric acid and soda lye. The project is co-financed by the National Centre for Research and Development, and implemented in cooperation with the New Chemical Syntheses Institute, the Inorganic Chemistry Branch ('IChN') in Gliwice.

#### 4.7. Protection of industrial property rights

In 2015, Grupa Azoty S.A. applied to the Patent Office of the Republic of Poland for patent protection of the following two inventions:

- A product for removal of coatings and its manufacturing formula,
- The procedure for Beckmann rearrangement for oxime cyclohexanone.

The company also applied to the Patent Office of the Republic of Poland for the protection of two trademarks:

- 'AS-21' combination (word and figurative) mark,
- 'agro festa' combination (word and figurative) mark.

Additionally:

- The Company applied to two foreign patent offices (in Belarus and India) for the patent protection of an invention related to cyclohexane oxidation technology;
- By decision of March 25th 2015, the Patent Office of the Republic of Poland granted patent protection to Grupa Azoty S.A. for the invention "Process of production of cyclohexanone from phenol";
- In a letter of July 14th 2015, the European Patent Office notified the company of the possibility of granting patent protection for the "Process of preparation of ammonium nitrate-sulfate";
- In 2015, the Company drew up and executed an agreement on joint patent rights with the New Chemical Syntheses Institute.
- On August 18th 2015 and August 19th 2015, respectively, the Company filed the following inventions with the Patent Office of the Republic of Poland: "Method for production of a soil quality enhancement agent" and "Method for reclamation of drilling waste landfill site".

- On December 2nd 2015, the Company and the New Chemical Syntheses Institute signed an agreement for the transfer of and joint rights to the final technology for desulfurization of the ammonium sulfate crystallization unit,

## 5. Current financial position

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

#### Recognition of impairment losses

On January 15th 2016, the Company's Management Board passed a resolution under which an impairment loss was recognised in Grupa Azoty S.A.'s accounting books as at December 31st 2015, relating to the assets of the plant producing cyclohexanone from benzene at the Plastics Business Unit. In accordance with the provisions of IAS 36, the Company's Management Board identified indications that the recoverable amount of those assets may have decreased below their respective carrying amounts.

The indications related to a change of the production technology for cyclohexanone, which is used to manufacture caprolactam (the new technology is based on phenol as the only feedstock), and a significant deterioration of market conditions and the ability to generate positive cash flows from sales of cyclohexanone manufactured from benzene.

Having considered these indications, the Management Board tested property, plant and equipment and intangible assets for impairment. The test confirmed the validity of recognising an impairment loss of PLN 12.1m.

The effect of the impairment recognition on the separate and consolidated performance of Grupa Azoty S.A. is as follows:

- effect on EBIT: PLN 12.1m,
- effect on net profit: PLN 9.8m.

#### Volatility of exchange rates

2015 saw the weakening of the US dollar against the euro, which resulted in a considerable weakening of the Polish zloty vs. the US dollar. Key factors contributing to the volatility of currency rates included: continuing moderate economic growth combined with persistent deflation in the eurozone, GDP rise in the USA, slower GDP growth in China, as well as recurring escalation of the Russian-Ukrainian conflict, and the Greek debt crisis.

At the same time, as the economic growth in Poland stabilised, in H1 2015 the Polish zloty strengthened against the euro. However, in the second half of the year the financial market reacted to rising political risks and concerns regarding the delivery of pre-election promises in Poland, which resulted in steady weakening of the Polish currency against the euro.

In 2015, the zloty weakened substantially against the US dollar (by ca. 11.2%) and remained flat against the euro relative to December 31st 2014. As the average PLN/EUR exchange rate was stable relative to 2014, it had no material effect on the Company's performance in 2015.

The Company mitigated the risk resulting from its currency exposure by using selected hedging instruments and measures, taking into account its current and planned currency exposures. The Company hedged its currency exposure using primarily natural hedging, currency loans, factoring and discount of receivables denominated in foreign currencies, as well as currency forwards. Currency forwards were entered into for up to 80% of the planned foreign currency exposure within up to six months, and up to 50% of the planned foreign currency exposure for the period of 6-12 months from the hedge contract date, in accordance with the guidance issued by the Grupa Azoty Group's Risk Committee.

In 2015, the Company hedged against currency risk using EUR and USD swap forwards, reflecting its planned net exposure in both currencies.

Grupa Azoty S.A. earned a PLN 2,238 thousand gain on hedging transactions realised in the twelve months of 2015, and a PLN 239 thousand gain on revaluation of cash-flow hedges.

On non-hedged currency exposure, Grupa Azoty S.A. reported a PLN 233 thousand foreign exchange gain, and a PLN (138) thousand deficit in foreign-currency income vs. expenses.

In total, in the twelve months of 2015, the Company's aggregate result on foreign exchange differences and currency derivative transactions (taking into account their revaluation as at the end of the reporting period) was PLN 2,106 thousand (including PLN 2,005 thousand on realised foreign exchange differences and currency hedging transactions and PLN 101 thousand on unrealised items).

Grupa Azoty S.A. also reported a PLN 157 thousand gain on valuation and settlement of forward contracts hedging the price of emission allowances.

## 5.2. Market overview

As estimated by CEFIC (European Chemical Industry Council), in 2015 the chemical production output in the EU increased by only 0.5% (year on year). Prices of chemicals fell by 4.5% over the first eight months of 2015, while sales volumes declined by approx. 30% over the first seven months of the year.

These trends were driven mainly by falling crude oil prices (which triggered price declines across the entire crude processing chain) and concerns about the economic conditions in China, the world's largest consumer. The petrochemical segment proved to be most vulnerable in the reporting period, with prices going down by over 10% year on year in August. Slight price declines were also reported in specialised and consumer chemicals segments (down 0.4% and 0.9%, respectively).

The share of the European chemical industry in global production currently stands at around 17%, following a steady downward trend (down from over 30% twenty years ago), to the advantage of Asian and North American chemical industry.

Paradoxically enough, the cause of price declines, namely decreasing crude oil prices, proved beneficial for the manufacturers of chemicals, as lower prices of energy and feedstocks combined with cost-efficiency investments and measures ultimately contributed to better financial performance. CEFIC analysts project an approximately 1% growth of chemical production in the European Union in 2016.

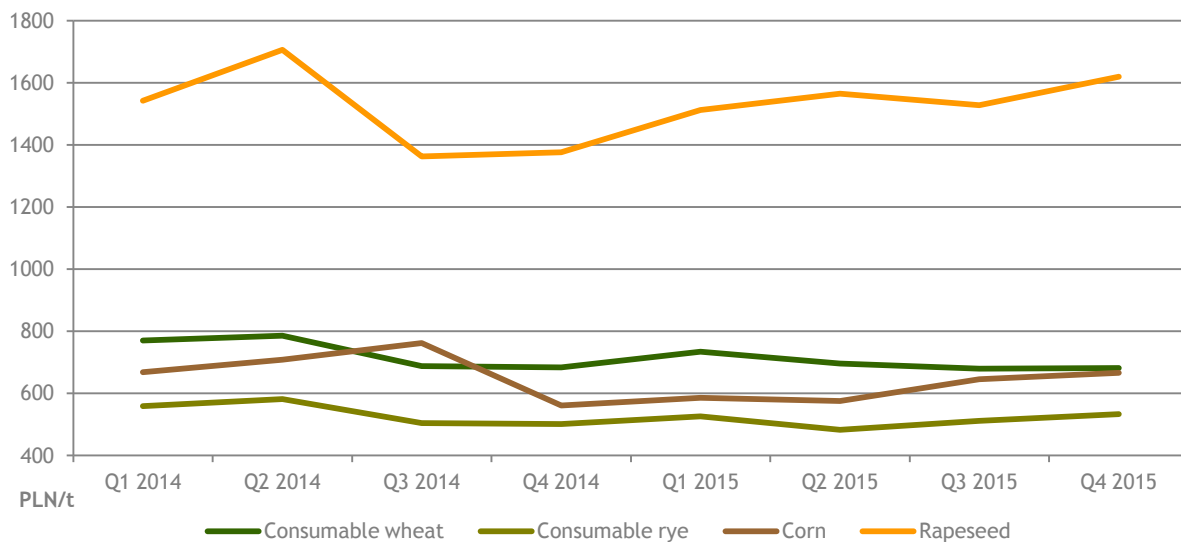
## AGRO FERTILIZERS

### Economic conditions in agriculture

2015 was another season of strong crop yields and high cumulative grain stock volumes globally, in Europe and in the local market, putting pressure on prices of basic grains and preventing their increase. That pressure was resisted by prices of rapeseed, whose stocks shrank.

In Poland, these adverse phenomena were mitigated by exports and the system of direct subsidies. In total, PLN 2.9bn, i.e. more than 20% of the total direct subsidies financial envelope for 2015 (amounting to about 14.5bn), was paid as at the end of December 2015.

### Oilseed rape, wheat, rye and corn prices



Source: Ministry of Agriculture and Rural Development.

Compared with 2014, prices of rapeseed continued on the upward trend, while prices of grains fell.

Source: Ministry of Agriculture and Rural Development.	Average 2014 PLN/t	Average 2015 PLN/t	yoy %	Dec 2015 PLN/t	MIN 2015 PLN/t	MAX 2015 PLN/t
Consumable wheat	732	698	-4.6 ↓	686	662	739
Consumable rye	537	513	-4.4 ↓	543	473	543
Corn	675	618	-8.5 ↓	688	571	688
Rapeseed	1,497	1,556	4.0	1,652	1,481	1,652

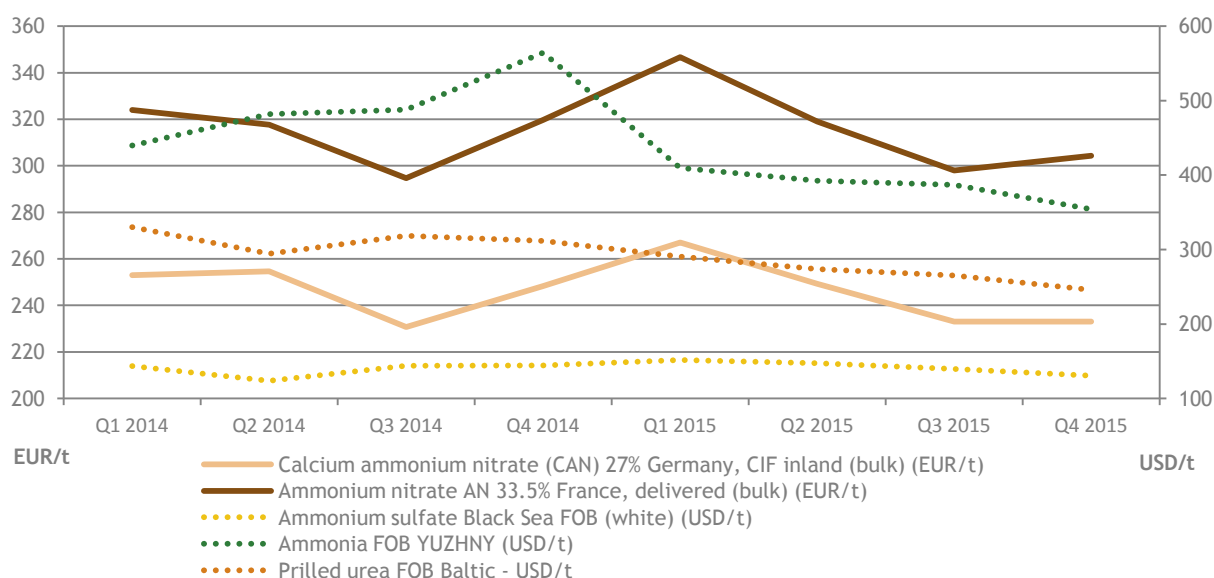
### Nitrogen fertilizers

In the first half of 2015, demand in the nitrogen fertilizers market remained strong. Solid demand was particularly salient in the first quarter, i.e. during the spring fertilizer application season, while the second half of the year saw a slowdown attributable to lower seasonal demand, the prevailing drought conditions, and continuing low prices of agricultural produce. Over the same period, prices of ammonia were on a downward trend (starting from November 2014), with a year-on-year price correction of about 22%. Declining ammonia prices were chiefly attributable to low cost of natural gas.

Given the nature of agricultural production, no significant changes are expected with respect to the distribution of demand for nitrogen fertilizers in 2016, although prices may be subject to trends similar to last year's.

Urea is the key product in the fertilizer segment, and has a direct or indirect effect on other nitrogen fertilizer markets. Its oversupply (in 2015, annual production capacities for urea increased by more than 4m tonnes), combined with certain macroeconomic factors such as low prices of agricultural produce, high grain stocks and the turmoil in the financial markets, supported the downward price trend, similarly as in the case of ammonia, throughout 2015. Urea prices were down more than 14% year on year. In 2016, demand for nitrogen fertilizers is traditionally expected to peak at the end of the first and beginning of the second quarter of the year. Similarly as in 2015, the distribution of demand is likely to be consistent with the forecast continuing low prices of agricultural produce, and the situation in the global market of urea. Agricultural producers may be expected to postpone purchases of fertilizers for subsequent applications until the last moment.

### Prices of nitrogen fertilizers (urea, CAN, AN, AS,) and ammonia



Source: ICIS, Argus FMB, Profercy.

Source: ICIS, Argus FMB, Profercy.	Average 2014 EUR/t	Average 2015 EUR/t	yoy %	Dec 2015 EUR/t	MIN 2015 EUR/t	MAX 2015 EUR/t
CAN 27% Germany CIF inland (bulk)	247	245	-0.6 ↓	233	228	271
AN 33.5% France, delivered (bulk)	314	317	1.0	307	286	353
	USD/t	USD/t	yoy	USD/t	USD/t	USD/t
Ammonia (FOB Yuzhny)	493	386	-21.8 ↓	311	311	423
Urea (FOB Baltic)	314	269	-14.3 ↓	235	235	314
AS (Black Sea FOB white)	139	142	2.5	134	129	153

In 2016, prices of nitrogen fertilizers are forecast to undergo further corrections, mainly due to the considerable oversupply of urea in the market. In the first half of the year, the prices may be under considerable pressure, even in periods of increased demand. A slight price increase is expected in the second half of the year. Other nitrogen fertilizers may follow suit.

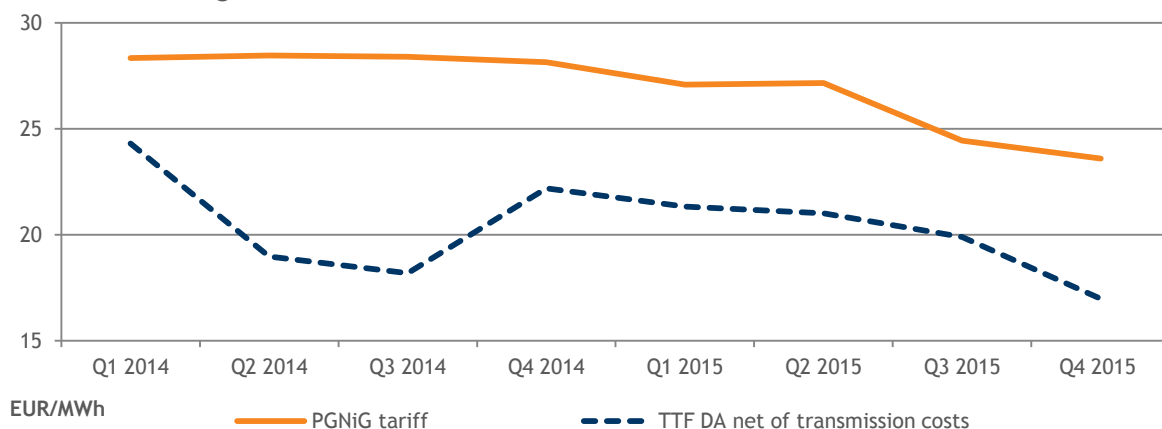
The consequences of this phenomenon may be mitigated by forecast low prices of production feedstock, including mainly natural gas (its price is forecast to drop further in 2016 to EUR 15 per 1 MWh), enabling producers to maintain their margins.

### Natural gas

Since mid-2014, gas prices have been falling, driven by the downtrend in crude prices. The emergence of new market entrants (the US, Iran) may boost gas supplies. In periods of higher demand for gas, its prices tend to go up, but the increase is usually insignificant, mainly due to mild winters, and does not reverse the downward trend.

In 2015, gas prices on the European market fell over 5% year on year.

### Prices of natural gas



Source: PGNiG tariff, ICIS.

In the reported period, spot prices of natural gas were on a downward trend.

Source: PGNiG tariff, ICIS.	Average 2014 EUR/MWh	Average 2015 EUR/MWh	yoy %	Dec 2015 EUR/MWh	MIN 2015 EUR/MWh	MAX 2015 EUR/MWh
PGNiG tariff	28.3	25.6	-9.8 ↓	23.4	23.4	28.2
TTF DA net of transmission costs	20.9	19.8	-5.3 ↓	15.6	15.6	22.5

The rate of growth in global consumption of natural gas in 2016–2017 is forecast at 1.7% per year, close to the average levels seen over the last five years, while its annual production in 2016–2017 is

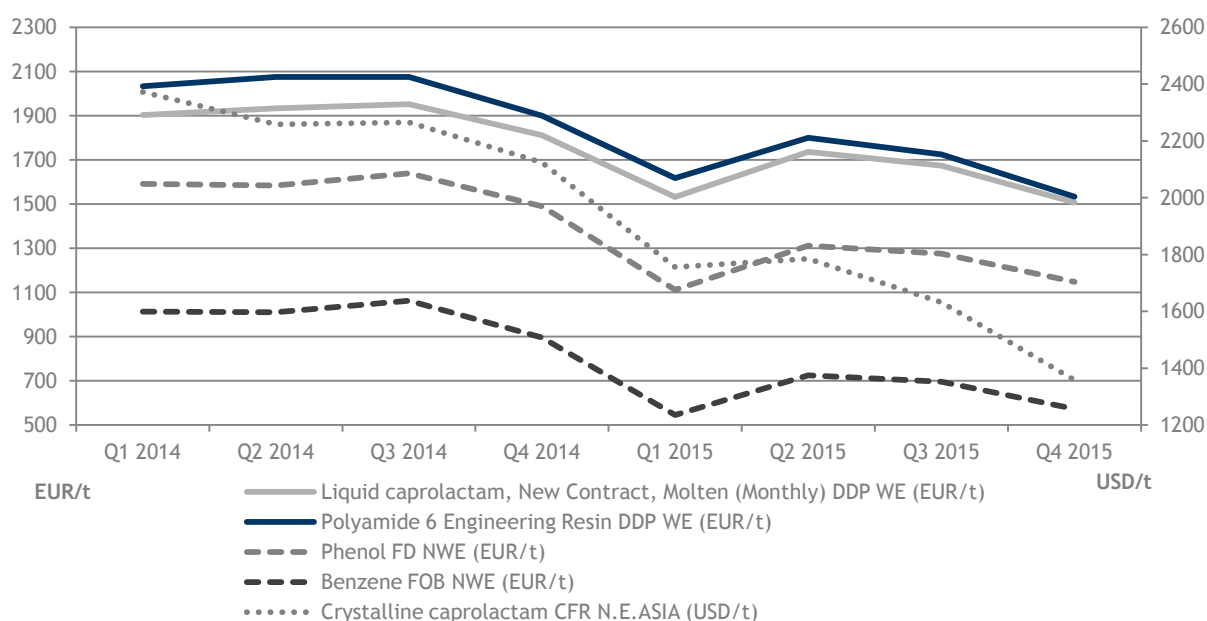
expected to go up by 2.1%. Russia's reaction to planned LNG supplies from the US to Europe and to the opening of the Iranian market is hard to predict. Quite possibly, Russia will strive to maintain its market share even if this means further price reductions.

The oversupply of gas on the market, the warm weather, and low crude prices are likely to support a further price decline in 2016. According to IHS Energy, coal prices in the EU may drop to EUR 15/MWh.

## PLASTICS

The market situation for the entire product chain was strongly affected by prices of crude oil, which are an important driver of prices of petrochemical feedstocks. The year-on-year drop in Brent crude prices of more than 46% was largely reflected in the prices of benzene, phenol and caprolactam, putting pressure on polyamide (PA6) producers to reduce their prices and margins. Short-terms forecasts provide no indication of any clear reversal of this trend. Stabilisation of crude oil prices would create a favourable environment for the restoration of a full market equilibrium in the sector, thus supporting the expected increase in demand for plastics.

### Prices of PA6, caprolactam, benzene and phenol



Source: TECNON, ICIS.

Source: ICIS, Tecnon, Rzeczpospolita.	Average 2014 EUR/t	Average 2015 EUR/t	yoy %	Dec 2015 EUR/t	MIN 2015 EUR/t	MAX 2015 EUR/t
Benzene (FOB, NWE)	995	635	-36.2 ↓	604	519	796
Phenol (FD, NWE)	1,576	1,212	-23.1 ↓	1,183	1,090	1,397
Caprolactam (Liq., DDP, WE)	1,900	1,613	-15.1 ↓	1,513	1,495	1,810
Polyamide 6 (PA 6) (DDP, WE)	2,021	1,669	-17.4 ↓	1,525	1,525	1,800
	USD/t	USD/t	yoy	USD/t	USD/t	USD/t
Caprolactam (CFR, NEAsia)	2,255	1,633	-27.6 ↓	1,295	1,295	1,935
	USD/bbl	USD/bbl	yoy	USD/bbl	USD/bbl	USD/bbl
Crude oil (BRENT)	99.7	53.7	-46.1 ↓	39.3	39.3	65.8



The crude oil price decline had the largest effect on the price of benzene. In 2015, its average annual price (FOB, NWE) was more than 36% lower than a year earlier. Among the factors that additionally affected benzene prices was the situation in the related markets (including the styrene market), connected with a gradual fall of demand in anticipation of more favourable prices of feedstocks for chemical production. Average annual prices of phenol went down as well, albeit not as much as the prices of benzene. Their decline of about 23% (FD, NWE) was driven by the downtrend in prices of crude oil, but also by seasonal supply deviations and the fact that producers were unable to ensure supply continuity due to plant failures and scheduled shutdowns.

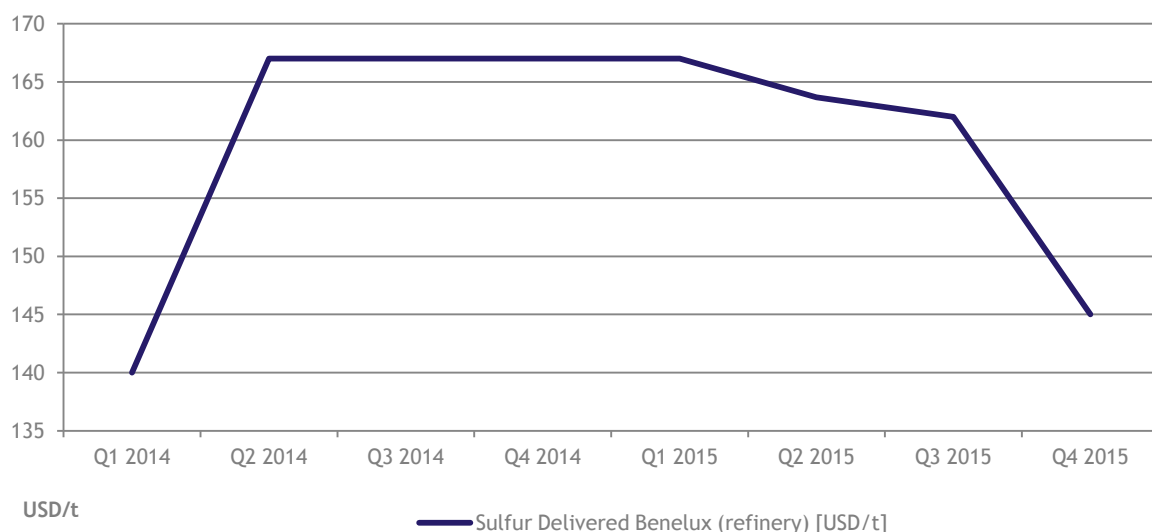
Compared with the same period of the previous year, prices of liquid caprolactam fell by 15%, pushed down by the dramatic drop in the prices of benzene, and by growing benzene production volumes from Asia. In 2015, the average price of polyamide 6 (PA6, Engineering Resin Virgin, DDP, WE) was about 1,669 EUR/t. Compared with 2014, it fell by more than 17%.

The entire segment experienced overall global oversupply, caused by the considerable increase in production capacities in China. Excess production capacity was also visible in the European markets, both in the case of caprolactam and polyamide. To keep their market shares, producers were forced to reduce margins, thus maintaining a price level acceptable to the market. However, the gradual development of the motor industry in the region and the prospects for GDP growth in Europe may pave the way to PA6 consumption growth in 2016. The PA6 market should be expected to expand in the long term, given the considerable potential with respect to extension of the product chain towards increasingly more technologically advanced products.

## Sulfur

The European sulfur market remained stable throughout 2015. Prices continued on a downward trend, reflecting the situation on the commodity market in general.

### Sulfur prices



Source: FERTECON.

Source: FERTECON.	Average 2014 USD/t	Average 2015 USD/t	yoy %	Dec 2015 USD/t	MIN 2015 USD/t	MAX 2015 USD/t
Sulfur (Delivered Benelux refinery)	160	159	-0.5 ↓	145	167	145
Sulfur (FOB Vancouver contract)	146	138	-5.2 ↓	127	110	166

2016 is expected to see global sulfur consumption increase by ca. 4.5% on 2015, especially in the Middle East, Asia and Oceania (up by close to 17%). For Europe, the anticipated growth rate is put at 1%. The 2016 global sulfur output is forecast to exceed the 2015 figure by 8%, including in Europe by almost 2% yoy. Significant volumes of the product will come to the market from the Former Soviet Union countries and Africa (up over 13% year on year), as well as from the Middle East (more

than 16%). The sulfur market will remain oversupplied, as a result of the use of sulfur recovery processes (primarily recovery from oil and gas).

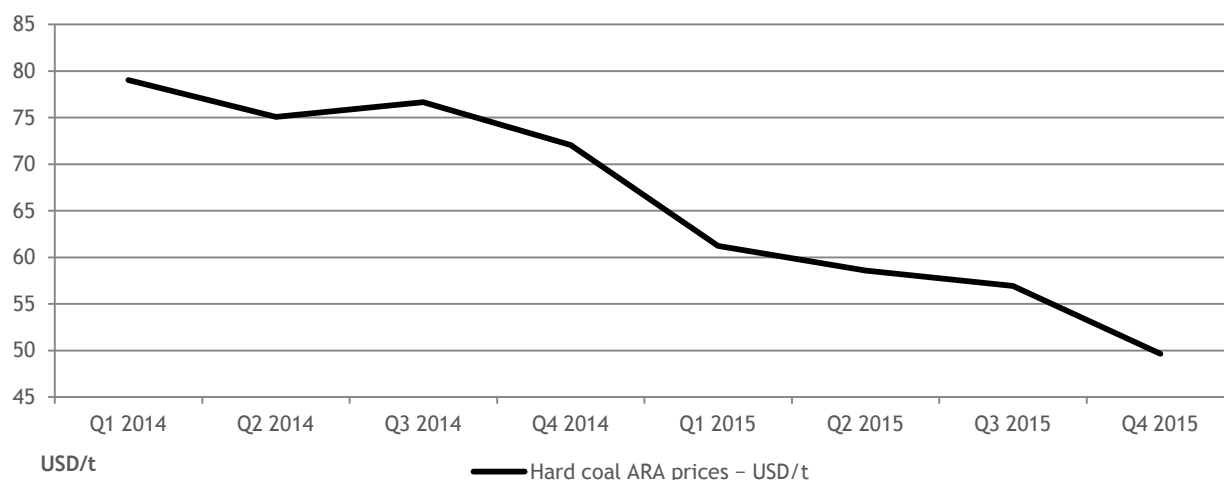
According to forecasts, in 2016 sulfur prices are to be lower by USD 5–15/t than in 2015. Key drivers will include increased supply and availability of sulfur, and projected lower demand for compound fertilizers, including DAP (key product manufactured with sulfur).

## ENERGY

### Coal

Prices on the global coal market are returning to the levels seen before the Chinese boom. In China, the world's largest consumer, coal prices have been falling for three years and hitting consecutive record lows. Performance of coal indices is down 25% year on year.

#### Prices of hard coal



Source: ARA prices.

The Polish coal market continues to be oversupplied. In the coming months of 2016, a slight downward trend in coal prices is expected to continue.

Source: ARA.	Average 2014 USD/t	Average 2015 USD/t	yoy %	Dec 2015 USD/t	MIN 2015 USD/t	MAX 2015 USD/t
Coal	75.7	56.7	-25.2 ↓	47.8	47.7	62.6

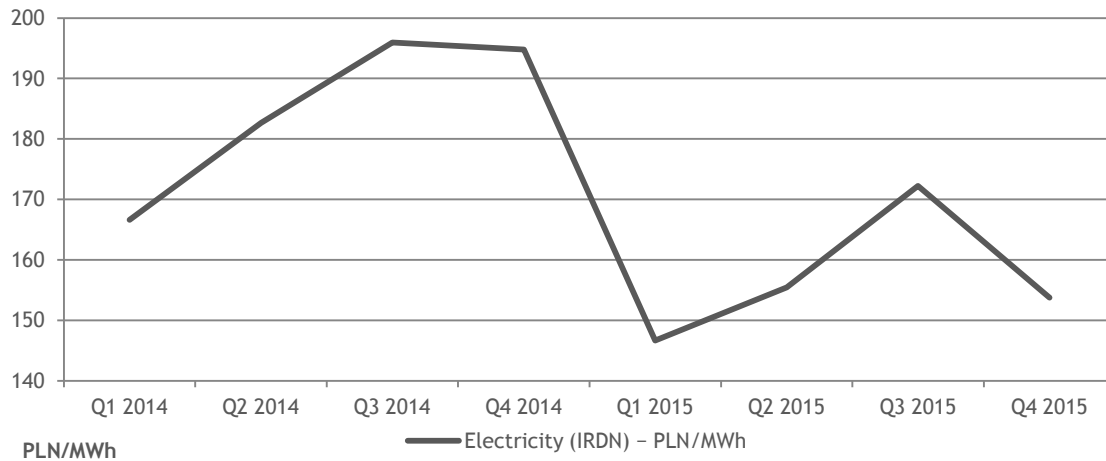
Analysts expect that in 2016 coal prices will stay largely flat compared with 2015.

The continuing oversupply of coal might prevent price hikes in the coming months, although prices may go up periodically in the event of severe winter, unless China decides to permanently shut down a large number of its coal mines.

### Electricity

In 2015, average monthly prices of electricity fell relative to 2014 by 15%. Electricity prices were volatile over the year, reaching their peaks in August, when persistent heatwaves and unfavourable hydrological situation in Poland forced restrictions on electricity supply and consumption.

## Prices of electricity



Source: Polish Power Exchange.

IRDN – average price weighted by the volume of all transactions on a trading day, calculated after the delivery date for the entire day.

Source: Polish Power Exchange.	Average 2014 PLN/MWh	Average 2015 PLN/MWh	yoy %	Dec 2015 PLN/MWh	MIN 2015 PLN/MWh	MAX 2015 PLN/MWh
Electricity	185.0	157.0	-15.1↓	140.2	139.7	177.5

The prices of electricity in 2016 may be driven by a combination of offsetting factors:

- Proposed resolution of the crisis in the Polish coal mining industry with the participation of energy companies, difficult restructuring of coal sector companies;
- New obligations imposed on electricity producers by the Act on Renewable Energy Sources;
- Falling prices of natural gas;
- Continuing low prices of coal and regulations. The domestic market is largely affected by climate regulations and the need to continue upgrading generation capacities (expenditure on new production capacities) and maintain operating capacity reserve (effect on production costs).

No further considerable decline in electricity prices is expected in the near future.

## 5.3. Key financial and economic data

### 5.3.1. Financial performance

For 2015, Grupa Azoty posted a positive EBITDA of PLN 95,339 thousand and a net profit of PLN 209,055 thousand.

Year on year, these figures went up by PLN 32,829 thousand and down by PLN 5,578 thousand, respectively.

## Grupa Azoty S.A.'s financial results

Item	2015	2014	change	% change
Revenue	1,776,651	1,847,250	(70,599)	(3.8)
Cost of sales	(1,487,619)	(1,625,949)	138,330	(8.5)
<b>Gross profit</b>	<b>289,032</b>	<b>221,301</b>	<b>67,731</b>	<b>30.6</b>
Selling and distribution expenses	(93,886)	(82,348)	(11,538)	14.0
Administrative expenses	(160,144)	(154,189)	(5,955)	3.9
Net other expenses	(30,804)	(14,007)	(16,797)	119.9
<b>EBIT</b>	<b>4,198</b>	<b>(29,243)</b>	<b>33,441</b>	<b>(114.4)</b>
Net finance income	204,738	233,184	(28,446)	(12.2)
<b>Profit before tax</b>	<b>208,936</b>	<b>203,941</b>	<b>4,995</b>	<b>2.4</b>
Tax expense	119	10,692	(10,573)	(98.9)
<b>Net profit</b>	<b>209,055</b>	<b>214,633</b>	<b>(5,578)</b>	<b>(2.6)</b>
<b>EBIT</b>	<b>4,198</b>	<b>(29,243)</b>	<b>33,441</b>	<b>(114.4)</b>
Depreciation and amortisation	91,141	91,753	(612)	(0.7)
<b>EBITDA</b>	<b>95,339</b>	<b>62,510</b>	<b>32,829</b>	<b>52.5</b>

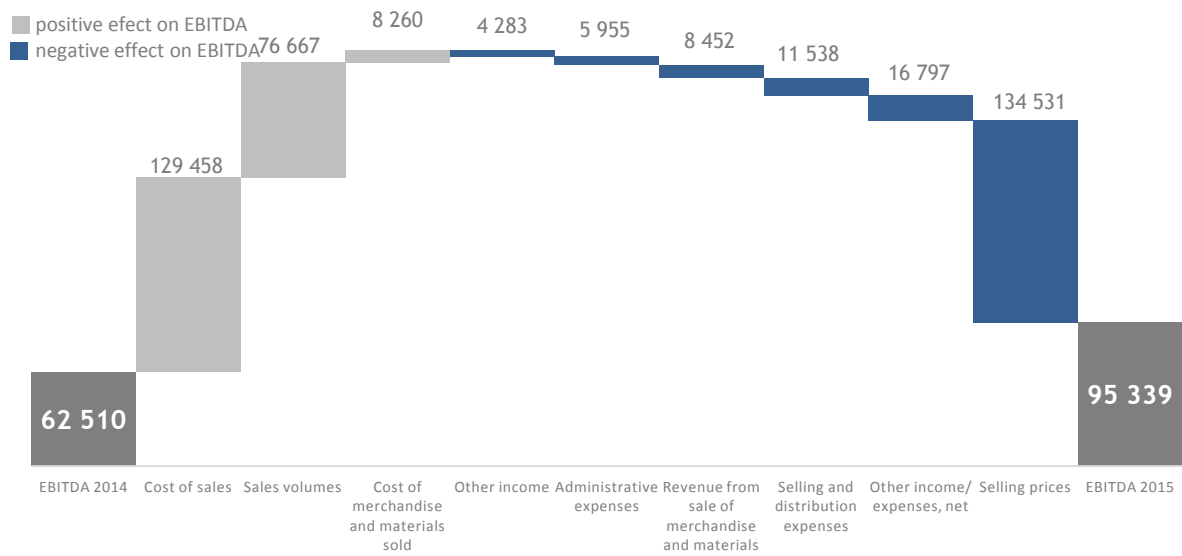
Source: Company data.

With revenue down 3.8% year on year and lower cost of sales (down by 8.5%), Grupa Azoty S.A. reported gross profit higher by PLN 67,731 thousand than a year earlier.

In 2015, net other expenses of PLN 30,804 thousand reduced EBIT, which stood at PLN 4,198 thousand. Net other expenses resulted mainly from impairment losses recognised on property, plant and equipment (mainly the recognition of an impairment loss on the assets of the plant producing cyclohexanone from benzene, following change of cyclohexanone manufacturing technology) and costs of post-accident repair.

The Company posted a net gain on financing activities, mainly attributable to dividends received.

### EBITDA - key drivers



Source: Company data.

### 5.3.2. Segments' results

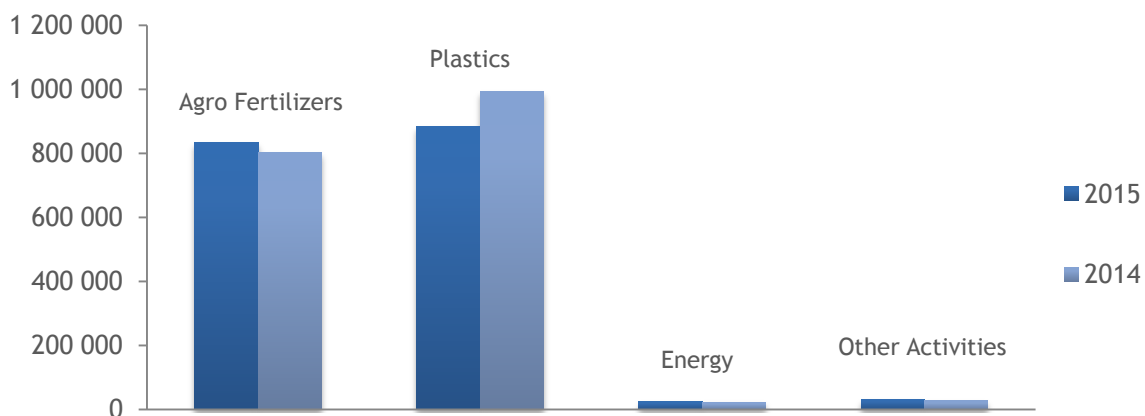
#### EBIT by segment

	Agro Fertilizers	Plastics	Energy	Other Activities
External revenue	834,936	883,113	25,665	32,937
Gross profit/(loss)	35,661	(570)	552	(641)
External revenue	31,752	(17,772)	(1,802)	(7,980)

Source: Company data.

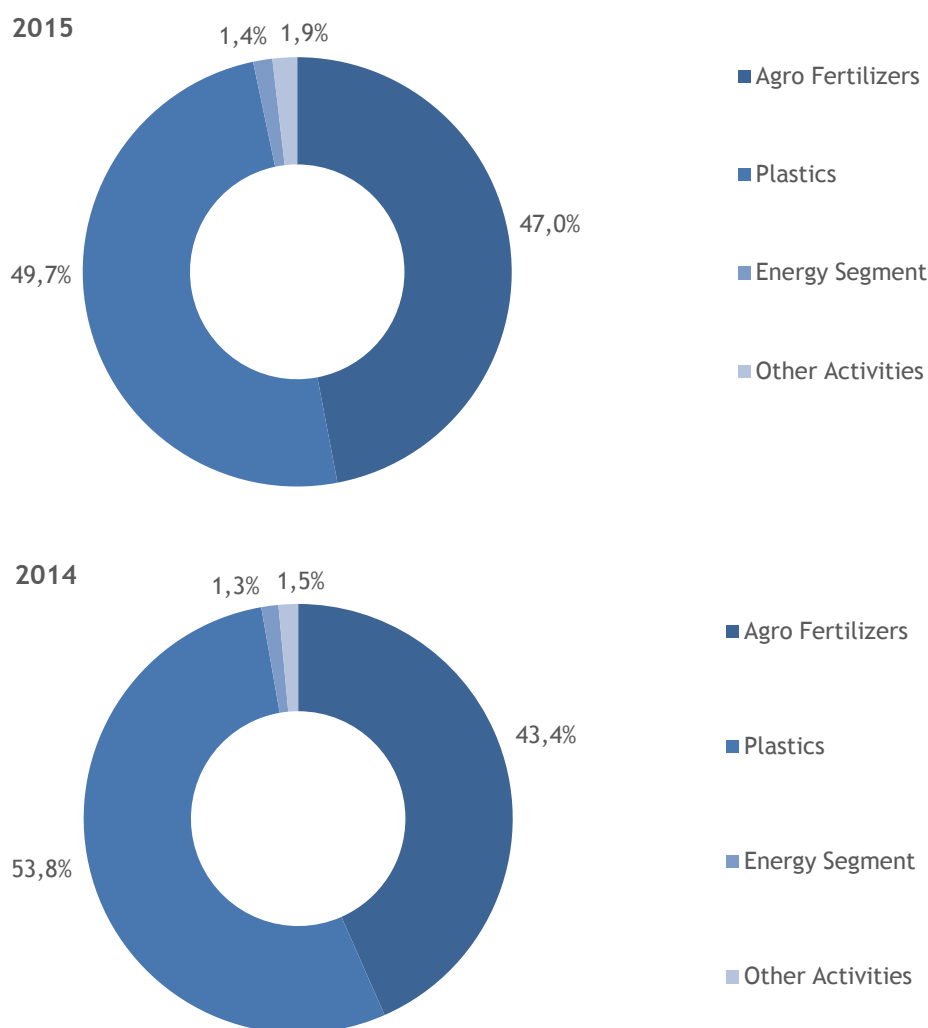
Profit on sales of Grupa Azoty S.A.'s products in 2015 was determined primarily by the market situation in the Agro Fertilizers and Plastics segments. Revenue in the Agro Fertilizers segment was up 4.1% year on year. Revenue generated by the Other Activities and Energy segments also increased, by 21.3% and 8.0%, respectively. Revenue in the Plastics segment went down 11.2%.

#### Revenue by segment



Source: Company data.

## Revenue by segment



Source: Company data.

The shares of individual segments in total revenue changed slightly. The Agro Fertilizers segment's share grew slightly (up 3.6pp) year on year, as did the shares of the Other Activities segment (up 0.4pp) and Energy segment (up 0.1pp), while the Plastics segment's share fell by 4.1pp.

### Agro Fertilizers

In 2015, revenue in the Agro Fertilizers segment was PLN 834,936 thousand and accounted for 47% of the Company's total revenue. The segment's revenue and its share in the Company's total revenue grew, respectively, by 4.1% and 3.6pp relative to 2014.

EBIT reported by the Company in the Agro Fertilizers segment was positive at PLN 31,752 thousand. Domestic market accounted for approximately 68.8% of total fertilizer sales.

### Plastics

Revenue in the Plastics segment was PLN 883,113 thousand and accounted for 49.7% of the Company's total revenue. The revenue figure was down 11.2% year on year.

The Plastics segment recorded loss and negative EBIT, which was mainly attributable to the impairment loss on the plant producing cyclohexanone from benzene.

More than 86.1% of the segment's revenue was derived from sales on foreign markets.

### Energy

In 2015, revenue in the Energy segment was PLN 25,665 thousand and accounted for approximately 1.4% of the Company's total revenue. The segment's revenue grew year on year by 8.0%, which also was a factor contributing to generating gross profit of PLN 552 thousand.

All of the segment's revenue was generated domestically.

## Other Activities

In 2015, the Other Activities segment's revenue grew to PLN 32,937 thousand year on year. However, the segment's increased operating expenses, and in particular higher other expenses, contributed to the negative EBIT of PLN 7,980 thousand.

The segment generated 70.6% of its revenue on the domestic market.

### 5.3.3. Operating expenses

In 2015, operating expenses were PLN 1,695,070 thousand, down by PLN 138,602 thousand year on year. The decreases were recorded for costs of raw materials and consumables used, taxes and charges as well as depreciation and amortisation. There was an increase in cost of salaries and wages, including overheads, and other benefits (up PLN 16,063 thousand), cost of services (up PLN 15,375 thousand), and other costs (up PLN 1,317 thousand).

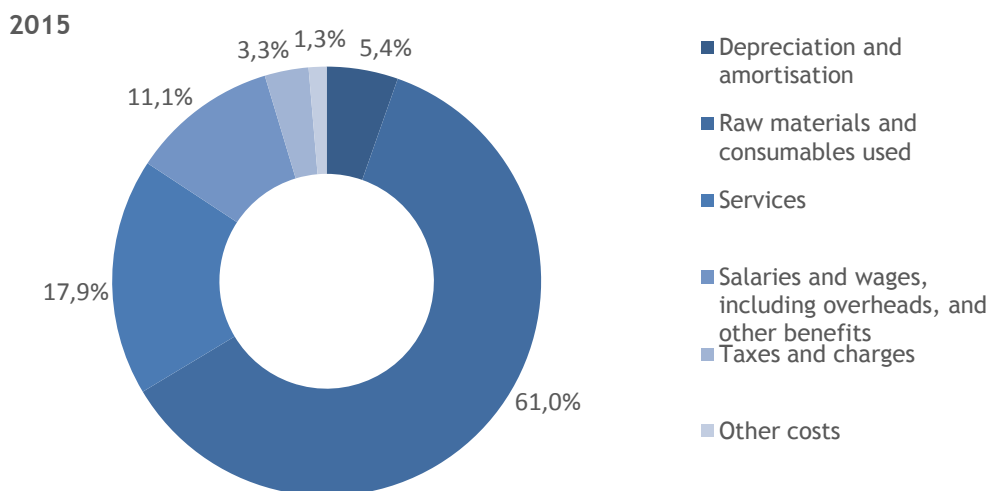
#### Operating expenses by nature

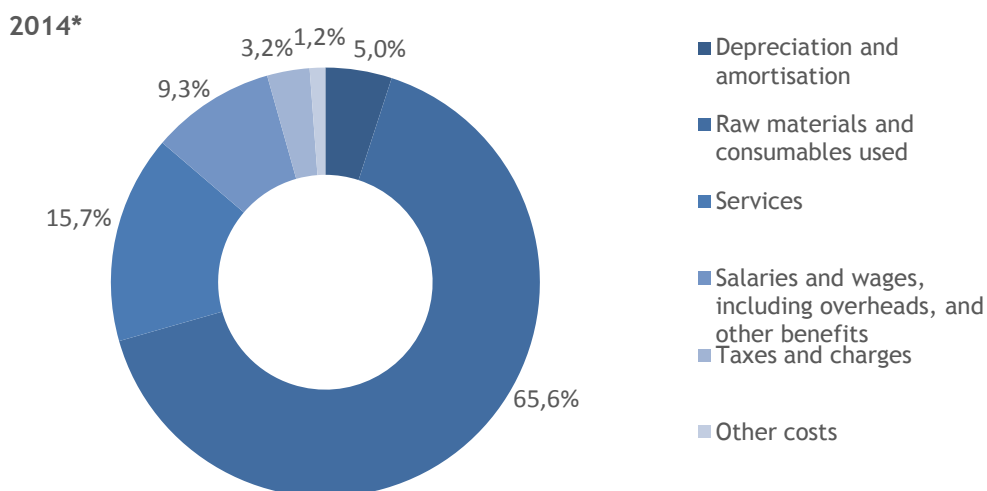
	2015	2014*	change	% change
Depreciation and amortisation	91,141	91,753	(612)	(0.7)
Raw materials and consumables used	1,034,282	1,202,405	(168,123)	(14.0)
Services	303,042	287,667	15,375	5.3
Salaries and wages, including overheads, and other benefits	187,737	171,674	16,063	9.4
Taxes and charges	56,045	58,667	(2,622)	(4.5)
Other costs	22,823	21,506	1,317	6.1
<b>Total</b>	<b>1,695,070</b>	<b>1,833,672</b>	<b>(138,602)</b>	<b>(7.6)</b>

Source: Company data.

\* Financial data restated in accordance with the information presented in Note 2.3 to the separate financial statements.

#### Operating expenses





Source: Company data.

\* Financial data restated in accordance with the information presented in Note 2.3 to the separate financial statements.

Raw materials and consumables used, which decreased year on year, had the largest share in costs by type. The shares of services, salaries and wages, including overheads, and other benefits, as well as depreciation and amortisation increased.

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

In 2015, the Company's assets rose to PLN 5,855,947 thousand, by PLN 455,385 thousand relative to the end of 2014. As at December 31st 2015, non-current assets stood at PLN 5,240,330 thousand, and current assets were PLN 615,617 thousand.

Year on year, the most significant changes in assets in 2015 included:

- a 13.5% increase in property, plant and equipment,
- a 308.1% increase in cash and cash equivalents,
- a 16.7% increase in intangible assets,
- an increase in other financial assets.

##### Structure of assets

	2015	2014*	change	% change
<b>Non-current assets, including:</b>	<b>5,240,330</b>	<b>4,865,264</b>	<b>375,066</b>	<b>7.7</b>
Investments in subordinated entities	3,832,536	3,814,993	17,543	0.5
Property, plant and equipment	1,114,240	981,306	132,934	13.5
Other financial assets	218,115	-	218,115	-
Intangible assets	50,442	43,214	7,228	16.7
Investment property	12,863	13,407	(544)	(4.1)
Available-for-sale financial assets	12,134	12,134	-	0.0
<b>Current assets, including:</b>	<b>615,617</b>	<b>535,298</b>	<b>80,319</b>	<b>15.0</b>
Trade and other receivables	246,894	258,824	(11,930)	(4.6)
Inventories	220,437	237,672	(17,235)	(7.3)
Cash and cash equivalents	111,942	27,431	84,511	308.1
Other financial assets	30,172	829	29,343	3 539.6
<b>Total assets</b>	<b>5,855,947</b>	<b>5,400,562</b>	<b>455,385</b>	<b>8.4</b>

Source: Company data.

\* Financial information as restated in connection with the change in recognition of prepayments; see Note 2.3 to these financial statements.

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

- a 5.0% increase in Grupa Azoty S.A.'s equity,



- a 24.6% increase in borrowings,

#### Structure of equity and liabilities

Item	2015	2014	change	% change
<b>Equity</b>	<b>4,382,771</b>	<b>4,174,341</b>	<b>208,430</b>	<b>5.0</b>
<b>Non-current liabilities, including:</b>	<b>1,043,852</b>	<b>448,168</b>	<b>595,684</b>	<b>132.9</b>
Borrowings	935,550	347,263	588,287	169.4
Employee benefit obligations	50,679	49,741	938	1.9
Deferred tax liabilities	29,770	22,363	7,407	33.1
Provisions	24,446	24,374	72	0.3
<b>Current liabilities, including:</b>	<b>429,324</b>	<b>778,053</b>	<b>(348,729)</b>	<b>(44.8)</b>
Trade and other payables	286,630	225,052	61,578	27.4
Borrowings	48,962	442,976	(394,014)	(88.9)
Other financial liabilities	46,554	70,328	(23,774)	(33.8)
Provisions	42,165	36,203	5,962	16.5
<b>Total equity and liabilities</b>	<b>5,855,947</b>	<b>5,400,562</b>	<b>455,385</b>	<b>8.4</b>

Source: Company data.

## 5.4. Financial ratios

#### Profitability ratios

	2015	2014
Gross profit margin	16.3 %	12.0 %
EBIT margin	0.2 %	(1.6) %
EBITDA margin	5.4 %	3.4 %
Net profit margin	11.8 %	11.6 %
ROA	3.6 %	4.0 %
ROCE	0.1 %	(0.6) %
ROE	4.8 %	5.1 %
Return on non-current assets	4.0 %	4.4 %

Source: Company data.

#### Ratio formulas:

*Gross profit 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 (ROA) = net profit (loss) / total assets*

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

*Return on equity (ROE) = net profit (loss) / equity*

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

#### Liquidity ratios

	2015	2014*
Current ratio	1.4	0.7
Quick ratio	0.9	0.4
Cash ratio	0.3	0.0

Source: Company data.

\* Financial information as restated in connection with the change in recognition of prepayments; see Note 2.3 to these financial statements.

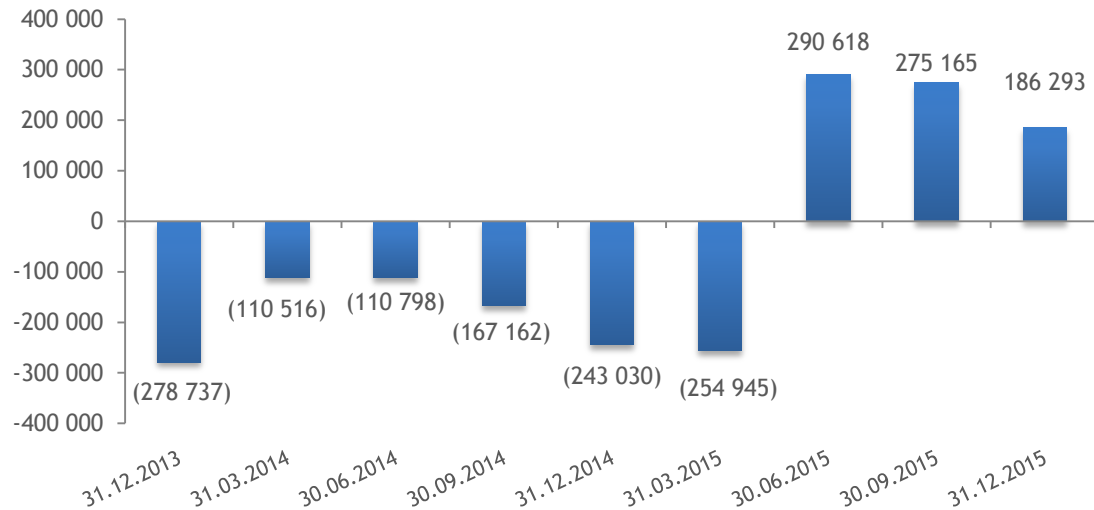
**Ratio formulas:**

*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*

**Changes in working capital\***



Source: Company data.

\* Financial information as restated in connection with the change in recognition of prepayments; see Note 2.3 to these financial statements.

**Operating efficiency ratios**

	2015	2014*
Inventory turnover	53	53
Average collection period	50	50
Average payment period	69	50
Cash conversion cycle	34	53

Source: Company data.

\* Financial information as restated in connection with the change in recognition of prepayments; see Note 2.3 to these financial statements.

**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 ratios**

Ratio	2015	2014
Total debt ratio	25.2 %	22.7 %
Long-term debt ratio	17.8 %	8.3 %
Short-term debt ratio	7.3 %	14.4 %
Equity-to-debt ratio	297.5 %	340.4 %
Interest cover ratio	792.1 %	668.0 %

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. Management of capital and assets

Grupa Azoty S.A. has access to umbrella overdraft limits under virtual cash pooling and under a multi-purpose credit facility, which may be used by the Company at times of increased demand for funding by Group companies. In addition, the Group also has access to bilateral overdraft limits and multi-purpose credit lines that are available to the Group companies.

The aggregate value of available overdraft limits and multi-purpose credit facilities available to Grupa Azoty S.A. as at December 31st 2015 was PLN 151,894 thousand.

Those overdraft limits and multi-purpose credit facilities, along with the long-term credit facilities secured under the "New Financing" package, totalling PLN 1,411,876 thousand as at December 31st 2015, represent financial resources which are sufficient to service current and future liabilities of the Company.

Importantly, Grupa Azoty S.A. maintains amounts of excess cash, including in bank deposits (PLN 111,942 thousand as at December 31st 2015), and therefore the risk of liquidity loss is very low.

During the year, Grupa Azoty S.A. increased its borrowings from PLN 790,239 thousand to PLN 984,512 thousand. At the same time, after previous borrowings were refinanced with funds raised under the "New Financing" package, the share of current borrowings in Grupa Azoty S.A.'s total financing decreased substantially, from PLN 442,976 thousand to PLN 48,962 thousand.

In 2015, Grupa Azoty S.A. did not default on any of its liabilities or financial covenants where such default would trigger acceleration of the liabilities.

In 2015, Grupa Azoty S.A. was not refused any bank loans and none of its credit facility agreements was terminated.

In the opinion of their strategic lenders, Grupa Azoty S.A. and its subsidiaries have a sound liquidity position and enjoy high credit standing. Considering the above, even if the macroeconomic situation deteriorates, the Company believes that there is no threat or risk which could materially adversely affect its liquidity position or lead to loss of liquidity.

Moreover, in 2015 the Group successfully implemented the objectives of its financing strategy:

- A centralised Financing Model for the Grupa Azoty Group was implemented, and the Company obtained a long-term financing package from leading commercial and multilateral banks operating in the Polish and European markets, as a highly secure source of funding for the Group's Investment Strategy and its day-to-day operations, ensuring uniform terms adequate to the Parent's standing and potential;
- The Grupa Azoty Group maintained a strong liquidity position while optimising the management of free cash at Group companies, for instance through the use of the cash-pooling arrangement, umbrella sublimits under current account overdraft facilities and multi-purpose facilities as part of the global limits available to the Group, and flexible adjustment of those sublimits to the Group companies' needs;
- An efficient mechanism was put in place for the redistribution of funds under the intra-group financing agreement with key subsidiaries, in the form of intra-group loans or note issues;
- approach to shaping the subsidiaries' dividend policies, adapted to the financing requirements of the Grupa Azoty S.A.'s and its subsidiaries' investment strategy.
- The Financing and Liquidity Management Policy for the Grupa Azoty Group, consistent with the implemented Financing Model, was adopted.

## 5.6. Bank deposits

In 2015, Grupa Azoty S.A.'s short-term funds were primarily held in a current account with PKO Bank Polski S.A., linked under virtual cash pooling with the individual Group companies' sublimits under overdraft facilities. The arrangement enables optimisation of interest incomes and expenses within the Group.

Moreover, Grupa Azoty S.A. maintained other free cash in short-term deposits held with reputable banking institutions offering highest interest rates, in particular rates above the 1M WIBOR rate per annum, applicable to amounts netted off as part of the cash-pooling arrangement.

As at December 31st 2015, Grupa Azoty S.A. held a total of PLN 111,942 thousand in bank accounts and short-term deposits, of which PLN 17,963 thousand was held in the current account with PKO Bank Polski S.A. linked with the virtual cash pooling. As at December 31st 2015, all these funds were disclosed in the Company's financial statements under cash and cash equivalents.

Grupa Azoty S.A. earned a total of PLN 514 thousand in interest income on fixed-term deposits and from virtual cash pooling of funds deposited in accounts held with PKO BP.

### **5.7. Credit facility and loan agreements executed or terminated during the financial year**

The financing of Grupa Azoty S.A. is based on variable interest rates. Depending on the currency, the rates are based on WIBOR, EURIBOR or LIBOR. In addition, the Company has access to a term credit facility provided by the EIB, which is available both at variable and fixed interest rates. In 2015 and as at the date of preparation of this report, Grupa Azoty S.A. signed the following material agreements and annexes relating to financial matters. The agreements are presented in chronological order.

#### **Factoring agreement**

On January 10th 2015, the Company entered into an agreement with Raiffeisen Bank Polska S.A. to terminate the EUR 6.5m factoring agreement of September 11th 2009, as amended.

#### **Revolving credit facility agreement**

On April 23rd 2015, the Company and PKO BP S.A., BGK, BZ WBK and ING entered into a syndicated revolving credit facility agreement for a total amount of PLN 1,500m and an overall term of five years from the agreement date. The purpose of the facility is, among other things, refinancing of selected financing agreements, and subsequent financing of investment plans and other objectives defined in the Group's long-term Strategy (for details, see Current Report No. 25/2015 of April 23rd 2015).

#### **Overdraft facility**

On April 23rd 2015, the Company (representing the other Group companies) signed an annex to the Group's overdraft facility agreement for the purpose of:

- Releasing the existing security over assets and replacing it with sureties issued by the Parent's subsidiaries: Grupa Azoty KĘDZIERZYN, Grupa Azoty POLICE and Grupa Azoty PUŁAWY;
- Including certain Group companies as potential borrowers under the agreement and adjusting the amounts of available sub-limits to their most recent allocation for the period April 1st–October 1st 2015

(for details, see Current Report No. 26/2015 of April 23rd 2015).

Next, on October 16th 2015, the Company (representing the other Group companies) signed an annex to the Group's overdraft facility agreement for the purpose of:

- Including Grupa Azoty Folie Sp. z o.o. as a borrower under the agreement;
- Reflecting the effects of mergers of subsidiaries within the Grupa Azoty Group;
- Aligning the facility documentation with respect to the extent to which the statements on voluntary submission to enforcement are to be replaced by notarised documents.

#### **Consolidating multi-purpose credit facility agreement**

On April 23rd 2015, Grupa Azoty S.A., Grupa Azoty POLICE, Grupa Azoty KĘDZIERZYN and Grupa Azoty PUŁAWY executed a PLN 237m consolidating multi-purpose credit facility agreement with PKO BP S.A. The purpose of the agreement was to release all security created over the Group's assets, and harmonise all material terms, conditions and covenants under credit facility agreements with those applicable under the syndicated revolving credit facility agreement (for details, see Current Report No. 26/2015 of April 23rd 2015).

#### **Company's prepayment of credit facility agreements with funds from the drawdown of the revolving credit facility**

On April 30th 2015, the Company made a voluntary prepayment of all amounts drawn under the following credit facility and loan agreements, using funds from the first drawdown of the revolving credit facility granted by PKO BP, BGK, BZ WBK and ING to refinance the Parent's existing financial liabilities:

- Joint financing agreement of August 14th 2012 with PKO BP and PZU – PLN 423,256 thousand plus interest, fees and commissions;
- Investment credit facility agreements No. CRD/33318/10 and CRD/33319/10 with Raiffeisen Bank – USD 4,157 thousand and EUR 1,099 thousand plus interest;

- Investment credit facility agreement No. U/0059827845/0004/2012/2300 with BGŻ – PLN 32,762 thousand plus interest;
- Loan agreement of June 14th 2011 with Grupa Azoty KĘDZIERZYN – PLN 70,000 thousand plus interest.

Moreover, using the funds from the first drawdown of the revolving credit facility, the Company made partial payments of the principal amounts under the following credit facility agreements (which remain available for further drawdowns):

- Multi-purpose credit facility agreement with PKO BP (after the consolidation made on April 23rd 2015) – repayment of the amount drawn under the Company's sub-limit of PLN 19,171 thousand;
- Overdraft credit facility agreement with PKO BP – repayment of a part of the amount drawn under the Company's sub-limit of PLN 80,000 thousand.

#### **Long-term credit facility agreement with EIB**

On May 28th 2015, the Company and the European Investment Bank entered into a long-term credit facility agreement for PLN 550m or its equivalent in the euro, effective for ten years from the agreement date, to be used to finance selected investment projects defined in the Group's long-term Strategy.

Under the agreement, the Company has access to financing bearing interest at both variable and fixed rates. In 2015, the Company drew EUR 50m under the credit facility, bearing interest at a fixed rate, in order to diversify its interest rate risk

(for details, see Current Report No. 38/2015 of April 28th 2015).

#### **Long-term credit facility agreement with EBRD**

On May 28th 2015, the Company and the European Bank for Reconstruction and Development entered into a long-term credit facility agreement for PLN 550m, effective for ten years from the agreement date, to be used to finance selected investment projects defined in the Group's long-term Strategy.

(for details, see Current Report No. 38/2015 of April 28th 2015).

#### **Annexes to receivables discounting agreements with mBank**

##### **Annex to receivables discounting agreement with mBank (formerly BRE Bank)**

On July 3rd 2015, the Company and mBank S.A. executed an annex to their receivables discounting agreement, under which the financing limit was raised from EUR 20m to EUR 21m, the agreement term was extended until September 23rd 2016, the costs of funding were lowered, and appropriate amendments were made to ensure the agreement's consistency with the "New Financing" package.

##### **Annex to the agreement for electronic purchase of receivables with mBank**

On July 3rd 2015, the Company and mBank S.A. signed an annex to their EUR 7m agreement for electronic purchase of receivables (from non-Group entities) of September 24th 2014, extending its term until November 1st 2016 and introducing appropriate amendments to ensure the agreement's consistency with the "New Financing" package.

Next, on September 11th 2015, the Company entered into another annex to the same agreement with mBank S.A. to increase the limit amount to EUR 8m and optimise the pricing parameters.

## **5.8. Loans, including in particular loans granted to the Company's related entities**

### **Loans advanced by the Company under the intragroup financing agreement**

Under the intragroup financing agreement signed on April 23rd 2015 with Grupa Azoty KĘDZIERZYN, Grupa Azoty POLICE and Grupa Azoty PUŁAWY to provide a redistribution mechanism for the funds available under the long-term financing package, the Company advanced the following loans in 2015:

- To Grupa Azoty KĘDZIERZYN:
  - in the form of a PLN 16,853 thousand loan for the purpose of repayment of the principal amount under a credit facility extended by Bank Gospodarstwa Krajowego under investment credit facility agreement no. 14/1585 of September 30th 2014 to finance the investment project "Launch of continuous production of OXOPLAST® OT". By December 31st 2015, two principal instalments in the total amount of PLN 2,593 thousand were repaid. The principal

- amount is to be repaid in quarterly instalments by December 31st 2018;
- in the form of a PLN 46,080 thousand loan for the repayment of the principal amount of the credit facility extended by Bank Gospodarstwa Krajowego under a term facility agreement for up to PLN 256,000 thousand of October 22nd 2014 to finance the investment project "New CHP plant at Grupa Azoty KĘDZIERZYN - Phase 1". The principal amount is to be repaid in quarterly instalments by March 31st 2020;
- in the form of a PLN 209,920 thousand loan for the purpose of financing the investment project "New CHP plant at Grupa Azoty KĘDZIERZYN - Phase 1". The loan will be paid out in tranches, as per the agreed schedule. By December 31st 2015, two tranches of up to PLN 88,960 thousand were drawn. The principal amount is to be repaid in quarterly instalments by June 28th 2024;
- To Grupa Azoty POLICE:
  - in the form of a PLN 60,000 thousand loan to cover the share capital of a joint-stock company PDH Polska S.A. established in connection with the investment project "PDH propylene production unit with related infrastructure". The loan will be paid out in tranches, as per the agreed schedule. By December 31st 2015, one tranche of PLN 20,000 thousand was drawn. The principal amount is to be repaid in instalments by December 31st 2024;
  - in the form of a PLN 104,000 thousand loan for the financing of investment projects at Grupa Azoty POLICE. The loan will be paid out in tranches, as per the agreed schedule, by the end of 2016. By December 31st 2015, a third tranche of PLN 78,000 thousand was drawn. The principal amount is to be repaid in instalments by April 23rd 2020;

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

### **Guarantees**

On May 28th 2015, the Company and the EIB entered into a credit facility agreement for up to PLN 550m, and the key subsidiaries, namely Grupa Azoty PUŁAWY, Grupa Azoty POLICE and Grupa Azoty KĘDZIERZYN, entered into a guarantee agreement with the EIB, under which the key subsidiaries, acting as guarantors, provided guarantees for Grupa Azoty S.A.'s liabilities under the EIB agreement, with each guarantee covering up to one-third (1/3) of 120% of the amount provided for in the EIB agreement, i.e. up to PLN 220m.

At the same time, the Company and the EBRD signed a credit facility agreement for up to PLN 150m, and the Company, together with its subsidiaries: Grupa Azoty PUŁAWY, Grupa Azoty POLICE and Grupa Azoty KĘDZIERZYN signed a guarantee agreement, under which those subsidiaries, acting as guarantors, provided guarantees for Grupa Azoty S.A.'s liabilities under the EBRD agreement, with each guarantee covering up to one-third (1/3) of 120% of the amount provided for in the EBRD agreement, i.e. up to PLN 60m.

(for details, see Current Report No. 38/2015 of April 28th 2015).

In 2015, Grupa Azoty S.A. did not sign any annexes to amend any guarantees with a total value exceeding 10% of its equity.

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

As part of its financial risk management policy Grupa Azoty S.A. identifies the following risks and has adopted the following risk management objectives and methods:

### **Currency risk management**

In 2015, Grupa Azoty S.A. applied the "Financial (Currency and Interest Rate) Risk Management Policy", which is one of the tools used to implement the Group's centralised Financing Model. The policy has been adopted by all key Group companies exposed to currency and interest rate risk.

- Currency risk  
Grupa Azoty S.A. is exposed to currency risk resulting from its net exposure to the euro and the US dollar related to the foreign currency balance of its sales and procurement transactions, trade receivables and payables, as well as receivables and liabilities from financing and investment activities.

Grupa Azoty S.A. is also exposed to the risk related to periodic episodes of strong exchange rate volatility, including the effect of EUR/USD exchange rate development on EUR/PLN and USD/PLN exchange rates.

- **Purpose of currency risk management**

The purpose of currency risk management is mitigation of volatility of Grupa Azoty S.A.'s cash flows in the euro and US dollar and hedging against adverse exchange rate movements by using instruments designed to reduce currency risk exposure and its effect on the financial performance of Grupa Azoty S.A.

In accordance with the Policy, the objective of currency risk management at the Company is to reduce the impact of adverse exchange rate movements on the Company's cash flows to a level acceptable by the Company, determined according to the VaR methodology.

- **Currency hedging level**

The hedging level is considered optimum if up to 80% of the planned net currency exposure is hedged for a period of up to 6 months from the transaction date, up to 50% of the planned currency exposure is hedged for a period from 6 to 12 months from the transaction date, and up to 30% of the planned currency exposure is hedged for a period from 12 to 24 months from the transaction date.

Using a higher currency hedging level requires the Management Board's approval following a recommendation received from the Risk Committee.

- **Rules of executing currency hedges**

Currency hedges are executed to reduce Grupa Azoty S.A.'s planned currency exposure and they are classified as cash flow hedges under hedge accounting. The amount of currency in a given transaction may not be higher than the hedged item in that currency.

To hedge exposure in the euro and US dollar Grupa Azoty S.A. primarily uses natural hedging, which involves increasing future liabilities in the euro and US dollar through the execution of procurement, investment and financing agreements in those currencies.

The remaining currency exposure is mitigated by executing transactions of the following types:

- Currency forwards,
- Currency swaps, involving temporary swaps of currencies with a bank to optimise short-term currency mismatch,
- It is also possible to execute symmetric currency collars or other symmetric combinations of longing put options and shorting call options.

Currency hedges are generally settled by physical delivery of the currency on the expiry date.

Grupa Azoty S.A. may enter into hedging transactions with horizons of up to 24 months if this reduces the adverse impact of exchange rate fluctuations on the Company's cash flows, and it is possible to secure the EUR/PLN or USD/PLN exchange rate to the extent it 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. Grupa Azoty S.A. enters into currency hedges only with the banks with which it has executed framework agreements that provide for comprehensive rules of execution and settlement of such transactions.

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 Financial Risk Management Policy.

### **Interest rate risk management**

Grupa Azoty S.A. is exposed to interest rate risk related to its financial liabilities (chiefly borrowings) denominated in the zloty and the euro, which are based on variable market interest rates, and financial assets (mainly bank deposits) denominated in the zloty, which earn interest based on variable and fixed market interest rates.

The objective of interest rate risk management is to optimise interest rates with a view to:

- Minimising the cost of interest on debt,
- Ensuring the highest available profitability of financial assets and their safe allocation.

To achieve that objective it is necessary to ensure an optimum structure and cost of project financing using proceeds from issues of securities and debt, and to provide for an optimum level of working capital.

Grupa Azoty S.A. primarily uses natural hedging involving the use of the same reference rate for borrowings and financial assets denominated in the zloty, and maintaining part of its available long-term credit facilities based on a fixed interest rate in the euro.

The remaining exposure to interest rate risk may be hedged using only the following transactions:

- Forward rate agreements (FRA),
- Interest rate swaps (IRS),
- Cross-currency interest rate swaps (CIRS).

The Company may enter into a transaction to hedge interest rate risk if it is ensured that the expected cost of the underlying instrument is limited. Execution of such a transaction is subject to the Risk Committee's approval.

Execution of an interest rate hedging transaction must be approved by the Management Board if its hedge horizon is more than 12 months or if the transaction does not conform to the Financial Risk Management Policy.

### Price risk management

Given that there are no adequate financial instruments hedging the price risk related to Grupa Azoty S.A.'s key raw materials and products, or no significant correlation between the price of such hedging instruments and contract prices of the raw materials and products has been confirmed, the Company does not intend to use such instruments to hedge price volatility.

Grupa Azoty S.A. intends to mitigate the risk of price volatility using natural hedging, which involves linking the largest possible part of its procurement and sales volumes (in particular of phenol, benzene, caprolactam and polyamide, used in its production chain) resulting from framework contracts with changes in ICIS prices for a given raw material.

### Credit risk management

Grupa Azoty S.A. has a credit risk management policy in place, which has been adopted by all its key companies in which such risk exists.

- Identified credit risks  
Grupa Azoty S.A.'s credit risk is related to:
  - Deposition of cash and cash equivalents at banks;
  - Granting trade credit to trading partners in connection with the sale of products and services.
- Purpose of credit risk management  
Mitigation of the risk of loss of financial assets, including loans, receivables, cash and cash equivalents.
- Limits for cash allocation and trade credits
  - a) The total amount of placements of cash or other financial assets should not exceed:
    - PLN 100m - at Grupa Azoty S.A.'s strategic bank with a low credit risk and high creditworthiness,
    - PLN 50m - at a bank important for the operations of Grupa Azoty S.A., with a low credit risk and high creditworthiness,
    - PLN 10m - at other financial institutions with no greater than moderate credit risk and at least good creditworthiness.
  - b) The total amount of trade credit granted to trading partners by any Group company should not exceed:
    - The amount of insured trade credit,
    - The market value of security provided by the customer,
    - The trade credit limit determined by any company of Grupa Azoty S.A. based on the assessment of the trading partner's financial standing.
- Rules of credit risk management
  - a) Execution of transactions involving deposition of cash and cash equivalents
    - Grupa Azoty S.A. deposits cash following selection of the highest interest rate quotations received from at least three banks, taking into account allocation limits, except for overnight deposits, which may be placed with the bank at which the account balance shows



- a financial surplus,
- Exceeding the allocation limit and/or placement of a deposit with a term of more than one year requires approval by the Management Board member in charge of finance or the President of Grupa Azoty Management Board.

b) Provision of trade credit

- Grupa Azoty S.A. determines trade credit limits based on requests received from teams responsible for execution of a sale transaction,
- A trade credit limit does not require a separate approval if it is insured or relevant security is established by a bank or other institution with a high creditworthiness,
- In other cases, the trade credit limit decision requires approval by the Corporate Finance Department (in the case of limits of up to PLN 350 thousand), Credit Risk Committee (up to PLN 2.5m) or the Management Board member in charge of finance or the President of Grupa Azoty Management Board (over PLN 2.5m).

In the case of actual or threatened insolvency, as a result of which an impairment loss is recognised, Grupa Azoty S.A. should immediately initiate an amicable recovery procedure, or collection or enforcement proceedings to recover the threatened financial asset or relevant security.

**Receivables insurance agreements at Grupa Azoty S.A.**

As part of trade credit risk management, Grupa Azoty S.A. cooperates with leading insurance companies as regards receivables insurance, taking advantage of diversification and competition between insurers by accessing specialist knowledge on the financial standing of the insured trading partners and having the ability to adjust the amount of the trade credits it grants to the limits granted by individual insurers to entities which are also customers of Grupa Azoty S.A.

## **5.11. Expected financial standing**

Grupa Azoty S.A. is fully solvent, with good credit standing. This means that Grupa Azoty S.A. 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 a timely manner.

In 2015, Grupa Azoty S.A. paid all of its borrowing-related liabilities when due, and there is no threat to its ability to continue servicing its debt.

In 2015, Grupa Azoty S.A. did not pay dividend from the 2014 profit as it allocated all funds to support the implementation of the Group's Strategy.

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

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

The Group's Budget for 2016 takes into account all market information (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, Grupa Azoty S.A. executed agreements with commercial and multilateral banks, under which it was granted a long-term revolving credit facility of PLN 1,500m for five years, and long-term credit facilities of PLN 700m for 10 years. The purpose of the facilities is to finance the investment plans and other objectives outlined in the Group's long-term Strategy.

## 6. Risk, threats and growth drivers

### 6.1. Significant risk factors and threats

#### **Risk related to the structural change on the global caprolactam market**

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

To minimise the effect of projected market trends, the Company has undertaken a number of initiatives to strengthen its competitive position, such as the construction of a new polyamide (PA6) unit and implementation of cost-cutting measures. A long-term caprolactam manufacturing cost reduction programme has been prepared, and 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.

It seeks to optimise the portfolio of its raw material suppliers, with particular emphasis on direct partnerships with producers under long-term strategic contracts, and to develop an optimum procurement logistics model.

The Company is active internationally as a member of European industry organisations, such as Plastics Europe, and monitors the situation for any possible threats to be able to take necessary steps and mitigate adverse effects of such negative developments.

#### **Risk of some shareholders taking steps undermining the Company's position**

As the Company is a public company listed on the Warsaw Stock Exchange, Company shares are subject to capital market regulations and are traded on the stock exchange. Therefore, there is a risk of some shareholders taking steps to control the way the Company is managed or destabilise effective management of the Company in order to undermine its position.

Grupa Azoty has put in place a uniform information policy ensuring supervision of information flow at Grupa Azoty S.A. and all the subsidiaries. With its current shareholding structure, internal regulations and, in particular, protection mechanisms provided for in the Articles of Association, Grupa Azoty is well protected against any hostile takeover attempts.

Moreover, since August 2014, Grupa Azoty has been included in the list of the Ministry of Treasury's strategic enterprises.

The Management Board of Grupa Azoty monitors capital market developments and pursues a transparent information policy towards capital market participants, providing its shareholders with strategic plans and investor presentations supported by sound arguments, in compliance with applicable laws and the Code of Best Practices.

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

Grupa Azoty S.A. is working on investment projects begun in previous years, while embarking on new ones, 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. 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 over strategic projects and their reviewed assumptions (business effects, budgets, KPIs, schedules, division of responsibilities) has been introduced, and regular updates on project status are provided. The execution of investment projects includes change management, where special attention is given to changes in foreign exchange rates, commodity prices, 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.

### **Risk related to availability and efficiency of capital and other sources of funding**

One of the factors important for the successful development of Grupa Azoty's business is the implementation of strategic projects and availability of capital for such projects, as discussed in Operationalisation of the Strategy for 2014–2020.

To mitigate the potential negative effect of the risk related to insufficient access to capital or other sources of funding, or availability of such capital or other sources of funding at excessive cost, the Group revalidated the following steps:

- Implementation of a new centralised financing model for Grupa Azoty, consistent with the Group Long-Term Plan. The Company negotiated uniform terms of the New Financing agreements, which enabled to Group, among other things, to:
  - Ensure consistency and uniformity of its key debt ratios and other financing covenants,
  - Extend the period of confirmed availability of the financing up to 5 to 10 years, adapted to the schedule of the Development Programme and its expected effects,
  - Secure uniform and lower funding costs (including margins) paid by the Group,
  - Replace security interests over the Group's assets with surety bonds/guarantees provided by the Key Group Companies, in line with a uniform formula,
  - Use the financing for general purposes, which allows the Group to flexibly allocate funds to the most efficient projects and to finance day-to-day operational needs,
  - Improve creditworthiness based on the Group's financial standing and strong position,
  - Obtain financing from highly-rated commercial banks and multilateral institutions with stable access to capital, whether now or in the future.
- Preparation and periodic update of the Grupa Azoty Group Long-Term Plan, including the Capex Budget, that is adapted to the planned EBITDA and ensures servicing and repayment of debt contracted under the centralised financing model, also taking into account the impact of business cycles.
- The Group adopted the Financing and Liquidity Management Policy for the Grupa Azoty Group, facilitating effective management of finances within the Group and enabling the Group and its Companies to service their debt and optimise the debt service costs.

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

The key cost item in fertilizer production is the cost of gas, which directly affects price competitiveness of the Company's products. Additionally, the costs of fertilizer production in the EU are affected by a number of regulations, such as CO<sub>2</sub> emission allowances. Faced with those challenges, the Company takes steps to cut production costs by upgrading its units in compliance with BAT requirements, adding to its product mix new products that take account of customers' growing expectations and are suitable for modern application methods, launching large-scale advertising campaigns, developing its own distribution channels and sales strategy based on strong ties with the best distributors, offering comprehensive customer services, running a broad marketing programme and reaching target customers on international markets.

### **Risk related to operation of the power generation system**

The maladjustment of the EC2 CHP plant's infrastructure to the demand structure may adversely affect the output of co-generated heat and power or electricity produced from steam-cycle based generation. If power production drops, the electricity deficit must be purchased on the wholesale market at cost higher than the cost of its generation at the CHP plant.

In 2015, work on a project designed to enable control of turbine workloads so that turbines can operate irrespective of the level of heat requirement from production units was commenced. Once the turbine is put into operation, the risk discussed above will be minimised. The efficiency of electricity and heat generation and flexibility of electricity and heat supply are expected to improve.

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

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

Such failures potentially result in a temporary shut-down of the production unit and may lead to production losses.

For a number of years, Grupa Azoty S.A. has been taking steps to minimise the risk of failure. The following measures have been taken to prevent failure:

- Technological measures,
- Technical measures,
- Ongoing inspection of processes and technical condition of the units,
- Regular maintenance shut-downs to maintain the units in good operating condition,
- Procedural measures,
- Regular health and safety training for the personnel, including also third-party employees performing work at the plant,
- Threat identification and assessment,
- Regular safety inspections,
- Analysis of actual failures and taking preventive measures to minimise the risk of failure in the future.

In the process of designing, construction and operation of the unit, Grupa Azoty S.A. takes into account safety requirements, applies the most reliable protection measures and the best available technology. The schedule of maintenance works and investments for a given year includes projects designed to enhance operational safety.

The Company maintains resources available for immediate deployment in case of emergency, including the Company Fire Brigade and Departmental Emergency Response Teams. As part of the preventive initiatives, the Company holds practical exercises at the plant, in accordance with the Rescue Operation Plan.

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

In its search for alternative and competitive sources of gas, Grupa Azoty S.A. diversifies both the geographical regions and the suppliers of its gas imports. Negotiations with alternative gas suppliers are conducted at the Group level, which allows the Group to leverage its stronger bargaining position.

Grupa Azoty takes steps to ensure an optimum gas procurement structure through a combination of a long-term contract with its strategic supplier (PGNiG), annual or shorter contracts with various suppliers, and transactions on energy exchanges and the OTC market to meet its short-term demand. The gas interconnector and gas storage facility extension projects, currently being implemented in Poland, and the launch of the LNG terminal in Świnoujście minimise the risk related to availability of natural gas. The Company also focuses on cutting gas consumption costs by implementing investment projects designed to reduce gas consumption rates.

#### **Risk associated with new legal requirements relating to production processes**

##### **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 into compliance with the new regulations. Grupa Azoty S.A. will have to undertake specific adaptation work and bear its costs. To ensure that there is sufficient time for taking appropriate steps to adapt the Company's facilities to the changing regulations, the Company continuously monitors all planned and implemented changes in the legal environment which could affect the Company's operations. Investments necessary in the light of the new regulations are provided for in the Company's investment plans.

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

Greenhouse gas emissions are covered by legal regulations related to the European Union's emissions trading scheme (EU ETS). The 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 Company has been taking steps designed to reduce the energy intensity of production processes, and thus reduce greenhouse gas emissions.

### **Risk associated with the construction of new units**

The Minister of Environment's Regulation of August 24th 2012 concerning the concentration of certain substances in the air defines environmental standards for particulate matter PM 2.5 (0-2.5 µm fraction), for which the permitted average annual concentrations are:

- 25 µg/m<sup>3</sup> from 2015, and
- 20 µg/m<sup>3</sup> from 2020.

The programme for improving air quality in the Kraków Province having been announced, it will be necessary to initiate a dust compensating procedure if new units are built. In order to meet the legal requirements, highly efficient dust removal equipment will need to be mounted on new units or the existing equipment will have to be replaced.

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

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

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

Grupa Azoty S.A. has been taking steps designed to ensure proper and efficient operation of production assets and to continuously perfect the quality and organisation of production processes.

The management of the risk relating to the operation of production assets involves not only the monitoring of the condition of technical facilities, but also improving procedures and developing qualifications of employees involved in operation and technical maintenance of the facilities.

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

The Company has developed technical risk assessment methods for key risks and additional Risk Analyses for technological facilities and equipment where threats of key risk occurrence have been identified.

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

The Company has defined procedures for monitoring emissions covered by the EU ETS. It also performs ongoing balancing of greenhouse gas emissions. The Company monitors on an ongoing basis its emissions and the market prices of emission allowances, which allows it to respond to their fluctuations.

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

The Company mitigates the risk of an adverse effect of 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 Company effectively implements its strategy of rolling purchases of emission allowances, which is designed to ensure full coverage of any deficit of emission allowances that should be allocated for a given year and subsequently redeemed, with exercise prices not higher than projected. Grupa Azoty has appointed the Emissions Trading System (ETS) Committee, including representatives of all leading Group companies. Its main objective is to supervise a joint model for managing CO<sub>2</sub> emission allowances at the Group companies, in particular the Emissions Trading Strategy.

### **Currency risk**

Grupa Azoty S.A. has a positive exposure to the euro and, to a lesser extent, the US dollar which is hedged based on on-going monitoring of movements in the euro and US dollar exchange rates. The Group hedges its currency exposures using currency forwards and natural hedging.

In connection with the implementation, in 2015, of the new centralised financing, Grupa Azoty extends 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. In line with its accounting policy, for such currency instruments, maturing in more than one year, the Group uses hedging relationships with future revenue planned to be generated in foreign currencies.

The Currency Risk Committee operates at the Group. The Committee analyses and determines the consolidated currency exposure of the Group and its material 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 methods Grupa Azoty applies enable it to limit the existing risk by using selected hedging instruments 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 Grupa Azoty's business, financial standing or performance.

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

According to estimates of the International Monetary Fund (IMF), the global economy's growth rate in 2015 was 3.1%. According to the IMF, the global economy will grow 3.4% and 3.6% in 2016 and 2017, respectively. The slightly lower (by ca. 0.2%) estimate of GDP growth rate compared with previous forecasts follows from below-expected acceleration of growth in emerging economies, especially China, lower prices of raw materials, and a gradual tightening of the US monetary policy. The IMF expects that developed economies will grow in 2016–2017 at a slightly higher pace (up 2.1%/y) compared with a 1.9% growth rate estimated for 2015. The euro zone economy is predicted to grow 1.7% in 2016–2017. Europe's developing economies, such as Poland, are expected to grow slightly faster, at 3.1% and 3.4% in 2016 and 2017, respectively. According to the World Bank, Polish GDP growth rate will reach 3.7% and 3.9% in 2016 and 2017, respectively. Risk factors posing a threat to global economic growth include the escalation of current geopolitical tensions across the world, which may adversely affect trust and disrupt global trade and financial flows.

The growth of the chemical industry will depend on changes in the global economy. Despite current economic slowdown in Asia, Roland Berger, a consultancy, expects the global chemical industry to grow on average at around 4% annually until 2020. Developed economies are anticipated to grow at a pace below the average. In view of a slightly stronger – relative to the previous year – economic growth expected to be seen in 2016, CEFIC projects an approximately 1% growth of chemical production in Europe in 2016, compared with 0.5% projected for 2015. Exports of chemical products from Europe are benefiting from favourable exchange rates and a slight acceleration in global economic growth. However, European chemical companies are affected by slower growth rates on their domestic markets and higher costs stemming from tightening EU regulations. According to Roland Berger, European producers should seek to improve their competitive position by optimising key feedstock supplies, meeting customers' growing needs, and expanding production capacities for specialty chemicals, based on their current position in base chemicals and plastics segments.

## **7. Shares and shareholding structure**

### **7.1. Total number and par value of Company shares, their ownership by supervisory and management personnel and such personnel's interests in the Company's related entities.**

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

- 24,000,000 Series AA shares with a par value of PLN 5 per share,
- 15,116,421 Series B shares with a par value of PLN 5 per share,
- 24,999,023 Series C shares with a par value of PLN 5 per share,
- 35,080,040 Series D shares with a par value of PLN 5 per share (issued in 2013).

The total number of Grupa Azoty S.A. shares is 99,195,484 bearer shares (ISIN code PLZATRM00012).

As at December 31st 2015 and as at the date of this Report, none of the Management Board members held any shares in the Company.

## Grupa Azoty S.A. shares held by supervisory personnel

	Number of shares/voting rights*		
	as at Jan 1 2015	as at Dec 31 2015	as at Mar 8 2016
Tomasz Klikowicz	190	190	190

\*Par value per share as at the issue date of this Report is PLN 5.

Grupa Azoty S.A.'s other supervisory personnel did not hold any Company shares as at December 31st 2015 or as at the date of this Report.

## Shares held by Grupa Azoty S.A.'s management personnel in related entities as at December 31st 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 Grupa Azoty S.A.'s supervisory or management personnel held any shares in its related parties.

## 7.2. Share data

The Company has been listed on the Warsaw Stock Exchange since June 30th 2008.

The Company's share capital amounts to PLN 495,977,420 and is divided into 99,195,484 shares with a par value of PLN 5 per share. Company shares (ticker: ATT) are listed on the WSE main market in the continuous trading system and are included in the WIG, WIG-Poland, WIG30 and mWIG40 indices and the chemical sector index, WIG-Chemia.

Since November 19th 2009, Grupa Azoty S.A. has been a constituent of the RESPECT index managed by the Warsaw Stock Exchange. The Company has been appreciated for its engagement in applying corporate social responsibility principles and having highest standards in corporate governance, corporate disclosure discipline, and investor relations, as well as environmental, social, and employee matters. In December 2015, the Company was for the ninth time included in the elite group of companies covered by the RESPECT Index, the first CSR-focused index in Central and Eastern Europe.

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

On March 4th 2015, the Company was included, and since March 23rd 2015 it has been featured, in the FTSE Emerging Markets index. The FTSE Emerging Markets 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 Company shares, including information on voting restrictions, is presented in the sections concerning Statement of compliance with corporate governance rules.

## Shareholding structure

### Shareholding structure as at December 31st 2015

Shareholder	Number of shares	% of share capital	Number of votes	% of voting rights
State Treasury of Poland	32,734,509	33.00	32,734,509	33.00
ING OFE	9,883,323	9.96	9,883,323	9.96
Norica Holding S.à r.l. (indirectly: 19,841,700 shares, i.e. 20.0026%)	571,348	0.57	571,348	0.57
Rainbee Holdings Limited <sup>*)</sup>	9,820,352	9.90	9,820,352	9.90
Opansa Enterprises Limited <sup>*)</sup>	9,450,000	9.53	9,450,000	9.53
TFI PZU S.A.	8,530,189	8.60	8,530,189	8.60
EBRD	5,700,000	5.75	5,700,000	5.75
Other	22,505,763	22.69	22,505,763	22.69
<b>Total</b>	<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 December 31st 2015 to the date of issue of this Report, the Company was not notified of any changes in large holdings of its shares.

### Dividend policy

Grupa Azoty S.A.'s dividend policy is consistent with the Strategy for 2014-2020. Distributions to Shareholders depend on the Company's earnings and financial position. The Management Board, recommending dividend payouts equal to 40–60% of Grupa Azoty S.A.'s non-consolidated net profit for a given financial year, takes into account a number of factors relevant to the Company and the Grupa Azoty Group, such as business prospects, future profits, cash requirement, financial position, business expansion plans and legal requirements. The dividend policy will be revised on an as-needed basis, and any decisions made by the Company in this respect will take account of a number of factors concerning both the Parent and the entire Group.

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

### Dividend paid out in 2008–2015

Year for which dividend was paid	Dividend record date	Dividend payment date	Profit earned	Total dividend	Dividend per share
2008	26.06.2009	Tranche 1: August 31st 2009	PLN 61,935 thousand	PLN 39,898,749.42	PLN 1.02
		Tranche 2: November 6th 2009			
2012	22.04.2013	24.05.2013	PLN 250,692 thousand	PLN 148,793,226.00	PLN 1.50
2013	18.06.2014	09.07.2014	PLN 44,117 thousand	PLN 19,839,096.80	PLN 0.20

### Grupa Azoty S.A. share price

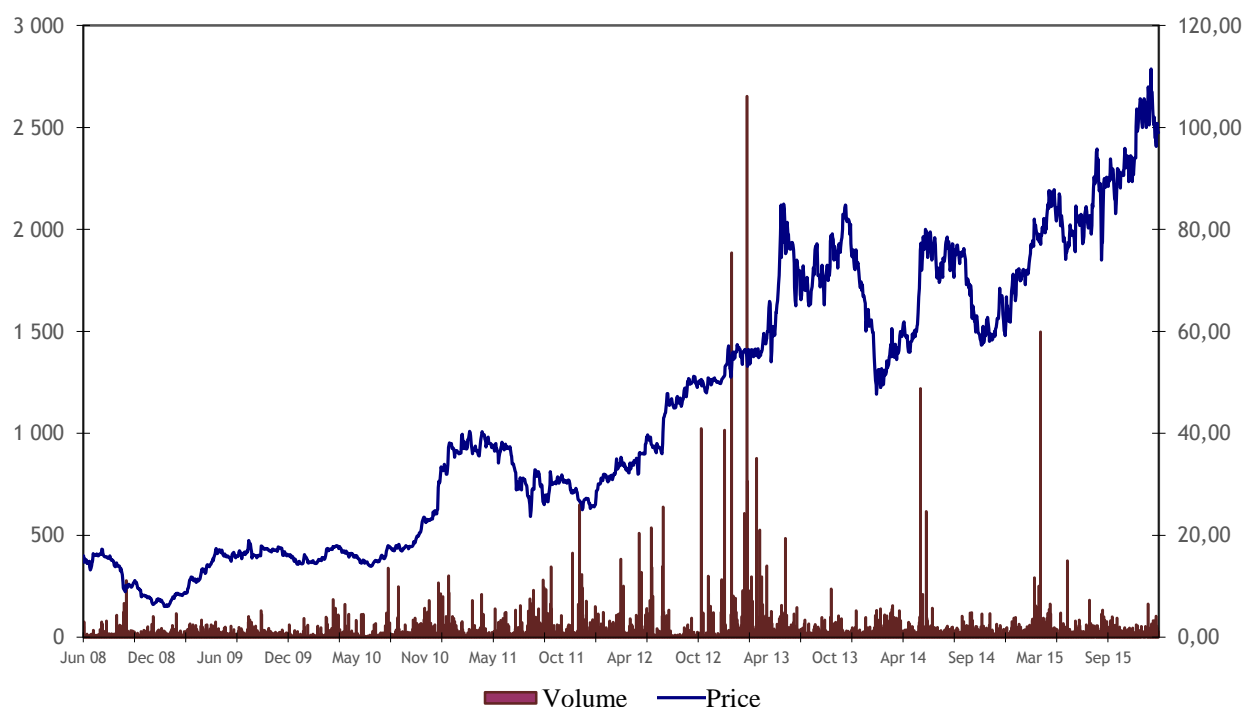
The Company shares opened 2015 at PLN 64.20, gaining significantly after the fluctuations observed at the end of 2014. The figure turned out to be the lowest price of Parent shares in the reporting period. The share price gradually climbed, reaching over PLN 86 in April 2015, to temporarily drop to slightly above PLN 75.61 in May/June, and then to rebound and return to the uptrend. The Parent shares closed 2015 at PLN 99.89, beating the all-time high and setting the new maximum price of PLN 113 per share at the beginning of December 2015.

In 2015, the rate of return on Grupa Azoty S.A. shares was 56.4%. The value of the Parent shares has grown more than five-fold since the Parent's first listing on the Warsaw Stock Exchange in 2008. The steady growth trend in the price of Grupa Azoty S.A. shares (the only stock from the mWIG index showing such a trend), both in short- and long term, was appreciated by the market - Grupa Azoty



was selected by journalists and analysts from the *Puls Biznesu* daily newspaper and the Bankier.pl website to the group of 16 companies to compete for the 2015 Champion of the WSE title.

#### Grupa Azoty S.A. share price from the IPO (June 30th 2008) to December 31st 2015



Source: GPWInfoStrefa, Grupa Azoty.

#### Recommendations

In 2015, analysts of 11 brokerage houses and investor banks covering Grupa Azoty S.A. published 24 recommendations concerning the target prices of its shares.

#### Analyst recommendations for Company shares, published between January 1st 2015 and the date of this Report

Date	Recommendation	Target price (PLN)	Price at recommendation date (PLN)	Broker
2016-02-11	sell	56,00 ▼	PLN 95.00	Societe Generale
2016-02-02	hold ►	PLN 100.20 ▲	PLN 104.00	DM mBank
2016-01-05	hold	PLN 91.80	PLN 96.38	DM mBank
2015-12-18	buy ▲	PLN 125.20 ▲	PLN 101.20	ING Securities
2015-12-14	sell ▼	PLN 94.80 ▲	PLN 101.20	IPOPEMA
2015-12-11	sell ►	PLN 84.60 ▲	PLN 103.60	PKO BP
2015-11-27	hold ►	PLN 105.00 ▲	PLN 102.15	Raiffeisen
2015-11-19	buy ►	PLN 123.00 ▲	PLN 105.65	DM BOŚ
2015-11-06	sell ►	PLN 60.20 ▲	PLN 94.00	DM BDM
2015-08-06	hold ►	PLN 83.80 ▲	PLN 78.70	ING Securities
2015-07-22	buy ▲	PLN 95.00 ▲	PLN 80.27	DM BOŚ
2015-07-01	sell ▼	PLN 70.00 ▼	PLN 82.00	Espirito Santo

Date	Recommendation	Target price (PLN)	Price at recommendation date (PLN)	Broker
2015-06-30	sell ►	PLN 68.00 ▲	PLN 82.61	Societe Generale
2015-06-22	buy ▲	PLN 93.90 ▲	PLN 75.61	IPOPEMA
2015-06-18	sell ►	PLN 67.93 ▲	PLN 78.00	PKO BP
2015-06-15	sell ►	PLN 72.40 ▲	PLN 79.20	Citigroup
2015-06-03	hold ▲	PLN 78.00 ▲	PLN 77.46	Raiffeisen
2015-05-08	sell ►	PLN 52.50 ▲	PLN 85.45	DM BZ WBK
2015-04-28	sell ►	PLN 64.30 ▲	PLN 85.33	DM BOŚ
2015-04-16	sell ►	PLN 67.00 ▲	PLN 87.50	UniCredit CAIB
2015-03-17	sell ►	PLN 63.00 ▲	PLN 78.00	Societe Generale
2015-03-06	reduce ►	PLN 74.00 ▲	PLN 82.00	Raiffeisen
2015-03-03	sell ►	PLN 50.00 ▲	PLN 77.50	DM BZ WBK
2015-02-12	hold ▲	PLN 68.90 ▲	PLN 72.00	ING Securities
2015-02-01	sell ▼	PLN 59.00 ►	PLN 71.00	DM BOŚ
2015-01-26	sell ►	PLN 51.20 ▼	PLN 60.00	ING Securities
2015-01-12	sell ►	PLN 62.00 ►	PLN 67.90	Societe Generale

### Investor relations

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

Upon the issue of periodic reports, Grupa Azoty holds conferences at which the Management Board representatives present and discuss financial performance. As part of the consolidation process and to present a coherent picture of the Group to investors and analysts, such conferences are organised jointly by all issuers from the Group. Because of the shareholding structure and significant interest they attract, earnings conferences for capital market analysts are broadcast online in real time, in Polish and in English. Conference recordings together with the presentations are available on the Company's website and on social networking sites.

In 2014, representatives of the Grupa Azoty Group also met with capital market participants during numerous one-on-one meetings and conferences, held both in Poland and abroad. They also attended industry conferences and conferences at which listed companies from Eastern and Central Europe were presented.

Keen to communicate with its retail investors as well, the Grupa Azoty Group holds open webchat sessions following publication of its financial reports, where the shareholders are able to communicate directly with the Group's representatives and ask them questions. Presentations on financial performance, addressed in particular to institutional investors, investor presentations, and chat logs are available on the Company's website (the Investor Relations section).

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 Polish Association of Retail Investors. In 2015, for the first time, the Grupa Azoty Group's representatives took part in Capital Market Games, a sports event addressed to minority investors, organised by the Polish Association of Retail Investors.

In response to the shareholders' expectations, Grupa Azoty S.A. makes every effort to ensure that the published information is disseminated among as many recipients as possible. To this end, Grupa Azoty publishes its key announcements also in social media. An important tool for communicating with the capital market is the corporate website, featuring Company's current and periodic reports, important information about AGMs and EGMs, analyst recommendations and financial results. The website, with its dedicated section for investors, was upgraded to provide more precise capital market information in a more user-friendly manner. The content and presentation quality of the IR

section, as well as the Internet communication with investors, were once again recognised by the jury of the Golden Website Award for Listed Companies, organised by the Polish Association of Listed Companies. Grupa Azoty once again won the prestigious Golden Website Award following the 8th edition of the competition held in June 2015, where it competed in the 'Polish companies listed in the WIG20 and mWIG40 indices' category.

The Company's website was assessed in terms of content, innovation and clarity of communication. The judging panel emphasised that Grupa Azoty deserved special recognition for the balanced and transparent layout, rich information content and state-of-the-art technologies applied on its website.

Also in June 2015, Grupa Azoty S.A. received the Special Award of the Minister of State Treasury for the best communication with retail investors through a website.

Grupa Azoty S.A.'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. Grupa Azoty S.A. participates 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, Grupa Azoty S.A. promises to pursue a proactive policy of communication with retail investors and respect the rights of this group of investors. The Company also boasts the "2014 Capital Market Hero" in recognition of its active two-way communication with retail investors.

## 8. Statement of compliance with corporate governance standards

### 8.1. Corporate governance code applicable to the Company 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, in 2015 Grupa Azoty S.A. applied the "Code of Best Practice for WSE Listed Companies", prepared by the Warsaw Stock Exchange. The Code applicable in 2015 is attached as an appendix to WSE Supervisory Board Resolution No. 19/1307/2013 of November 21st 2012.

Following the adoption of the new text of the "Code of Best Practice for WSE Listed Companies" by way of Resolution No. 26/1413/2015 of the Supervisory Board of the Warsaw Stock Exchange dated October 13th 2015, the Company declares that as of January 1st 2016 it follows the recommendations and principles laid down in the new "Code of Best Practice" as published on the website of the Warsaw Stock Exchange at

[http://static.gpw.pl/pub/files/PDF/RG/DPSN2016\\_\\_GPW.pdf](http://static.gpw.pl/pub/files/PDF/RG/DPSN2016__GPW.pdf) and on the website of the Company at [http://tarnow.grupaazoty.com/files/4f6e6653/gpw-dobre-praktyki-grupa-azoty\\_2016.pdf](http://tarnow.grupaazoty.com/files/4f6e6653/gpw-dobre-praktyki-grupa-azoty_2016.pdf).

### 8.2. Nature and degree of Company's non-compliance with the corporate governance principles

Since the flotation of its shares on the WSE in 2008, Grupa Azoty S.A.'s aim has been to observe best corporate governance practices, which was expressed in the declaration of the Company's Management Board contained in the issue prospectuses and confirmed in the Management Board's resolutions on the adoption of the recommendations and principles imposed by the "Code of Best Practice for WSE Listed Companies".

In accordance with the "Code of Best Practice for WSE Listed Companies" applicable in 2015, the Company's Management Board declared that it followed all the recommendations, with the exception of:

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

Explanation: In the Company's view, the way General Meetings have been documented and carried out to date ensures transparency and safeguards the rights of all shareholders. Further, information on passed resolutions is published by the Company in the form of current reports,

also on its website. Therefore investors are able to review the matters discussed at General Meetings. The Company may apply this principle in the future.

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

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

As the new "Code of Best Practice for WSE Listed Companies" applies now, the Company's Management Board declares that as of January 1st 2016 all the recommendations and detailed principles imposed thereby are followed, with the exception of:

- recommendation IV.R.2.  
"If justified by the structure of shareholders or expectations of shareholders notified to the company, and if the company is in a position to provide the technical infrastructure necessary for a general meeting to proceed efficiently using electronic communication means, the company should enable its shareholders to participate in a general meeting using such means, in particular through:
  - 1) real-time broadcast of a general meeting,
  - 2) real-time bilateral communication where shareholders may take the floor during a general meeting from a location other than the general meeting,
  - 3) exercise of the right to vote during a general meeting either in person or through a proxy."

Explanation: The Company's Articles of Association and the Rules of Procedure for the Company's General Meeting do not provide for real-time broadcasting of General Meetings. Also, the Company believes that the way General Meetings have been documented and carried out to date ensures transparency and safeguards the rights of all shareholders. Further, information on passed resolutions is published by the Company in the form of current reports, also on its website. Therefore, investors are able to review the matters discussed at General Meetings. However, the Company may apply this principle in the future. In the opinion of the Company's Management Board, the decision not to apply the abovementioned principle will not affect the reliability of the Company's information policy, nor will it hinder shareholders' participation in General Meetings.

- and the following principles:  
I.Z.1.20 "A company should operate a corporate website and publish on it, in a legible form and in a separate section, in addition to information required under the legislation, an audio or video recording of a general meeting,"

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

In the opinion of the Company's Management Board, the decision not to apply the abovementioned principle will not affect the reliability of the Company's information policy, nor will it hinder shareholders' participation in General Meetings.

IV.Z.2. "If justified by the shareholding structure, a company should ensure publicly available real-time broadcasts of general meetings."

Explanation: The Company's Articles of Association and the Rules of Procedure for the Company's General Meeting do not provide for real-time broadcasting of General Meetings. Also, the Company believes that the way General Meetings have been documented and carried out to date ensures transparency and safeguards the rights of all shareholders. Further, information on passed resolutions is published by the Company in the form of current reports, also on its website. Therefore, investors are able to review the matters discussed at General Meetings. However, the Company may apply this principle in the future.

In the opinion of the Company's Management Board, the decision not to apply the abovementioned principle will not affect the reliability of the Company's information policy, nor will it hinder shareholders' participation in General Meetings.

### 8.3. Internal control and risk management systems

Grupa Azoty S.A. implemented the Enterprise Risk Management System based on ISO 31000 standard "Risk management principles and guidelines" and the "Enterprise Risk Management - Integrated Framework" standard developed by COSO. The "Grupa Azoty Enterprise Risk Management Policy" was adopted along with a range of procedures describing stages of the risk management process and detailed actions to take.

In accordance with the adopted regulations, enterprise risk management consists of the following stages:

- Risk identification and assessment,
- Definition and implementation 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.

The position of Risk Manager was established at the Company to administer the process. The Risk Manager's responsibility is to manage the enterprise risk at the Group level. Technical (specialist) assistance in the administration of the enterprise risk management process is provided by the staff of organisational units responsible for risk management at the subsidiaries.

A Steering Committee was also established to support the process management. The Committee exchanges information, makes analyses and formulates opinions to support reaching viable solutions for the process. The Risk Management Steering Committee brings together representatives of the Grupa Azoty Group companies at which the risk management system was implemented.

Risks are managed by the respective risk owners, who take day-to-day measures to monitor relevant risk factors or adopt risk management strategies.

The Company identifies and assesses the risks periodically, using the adopted risk model. Risk assessment is performed by the respective risk owners based on a rating of the impact and likelihood of the risk occurrence adopted for a given year. Then risks are prioritised and key risks for the Company in a given period are identified. Outcomes of the process are used to plan internal audits.

As a result, a list of key risks is adopted at the Company along with the risk map and register. Results of periodical reviews of the risk register are then used to prepare documents for the Grupa Azoty Group.

As a rule, once a year the Company prepares a periodic report on the enterprise risk management. The report contains a description of the key risks and information about the operation of the risk management function at the Company.

The operational risks are identified and steps are taken to mitigate their adverse effect. Internal audits of the management systems are among the tools applied by the Company to assess effectiveness of the risk mitigation measures undertaken in individual processes carried out at the Company.

## 8.4. Shareholding structure

Shareholding structure as at January 1st 2015 (in accordance with the information provided in the annual report for 2014)

Shareholder	Number of shares	% of share capital	Number of votes	% of voting rights
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
EBRD	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.

including:

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

On April 24th 2015, the Management Board of Grupa Azoty S.A. received a notification from Opansa Enterprises Limited of Nicosia, Cyprus, served 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 contribution of Grupa Azoty S.A. shares to cover the increased share capital of Opansa, made by its sole shareholder, Norica Holding S.à r.l. of Luxembourg, controlling 100% of the share capital of Opansa, Opansa: (i) on April 23rd 2015 acquired 9,450,000 Grupa Azoty S.A. shares, representing approximately 9.527% of the Company's share capital and carrying 9,450,000 voting rights (approximately 9.527% of total voting rights) at the Company's General Meeting, and (ii) as a result of the transaction, exceeded the threshold of 5% of total voting rights at the Parent's General Meeting.

Prior to the transaction, Opansa had not held, whether directly or indirectly, any Grupa Azoty S.A. shares.

Following the transaction, Opansa held directly 9,450,000 Grupa Azoty S.A. shares, representing approximately 9.527% of the Company's share capital and carrying 9,450,000 voting rights (approximately 9.527% of total voting rights) at the Company's General Meeting.

Opansa notified Grupa Azoty S.A. that none of its subsidiaries held any Company shares.

Opansa 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 on April 24th 2015, the Company's Management Board received a notification from Norica, acting in its own name and on behalf of:

- TrustService Limited Liability Company of Veliky Novgorod, Russia, and
- JSC Acron, a joint stock company of Veliky Novgorod, Russia, and
- Subero Associates Inc., a private limited liability company of Tortola, British Virgin Islands, and
- Mr Viatcheslav Kantor, a citizen of Israel.

According to the notification, following the in-kind contribution of Company shares made by Norica on April 23rd 2015 to cover the increased share capital of Opansa, a direct subsidiary of Norica and an indirect subsidiary of TrustService, Acron, Subero and Mr Kantor, Opansa: (i) acquired, on April 23rd 2015, 9,450,000 Grupa Azoty S.A. shares, representing approximately 9.527% of the Company's share capital and carrying 9,450,000 voting rights (approximately 9.527% of total voting rights) at the Company's General Meeting, and (ii) as a result of the transaction, exceeded the threshold of 5% of total voting rights at the Company's General Meeting.

Prior to the transaction, Opansa had not held, whether directly or indirectly, any shares in the Company.

Following the transaction, Opansa held directly 9,450,000 Grupa Azoty S.A. shares, representing approximately 9.527% of the Company's share capital and carrying 9,450,000 voting rights (approximately 9.527% of total voting rights) at the General Meeting.

Also, as a result of the transaction:

1. Norica Holding S.à r.l. holds, directly and through Opansa (its direct subsidiary) as well as through Rainbee Holdings Limited of Nikosia, Cyprus ('Rainbee'), 19,841,700 Grupa Azoty S.A. shares, representing approximately 20.0026% of the Company's share capital and carrying 19,841,700 voting rights (approximately 20.0026% of total voting rights) at the Company's General Meeting, of which:
  - Norica Holding S.à r.l. holds directly 571,348 Company shares, representing approximately 0.576% of the Company's share capital and carrying 571,348 voting rights (approximately 0.576% of total voting rights) at the General Meeting;
  - Norica Holding S.à r.l. holds indirectly, through Opansa, 9,450,000 Company shares, representing approximately 9.527% of the Company's share capital and carrying 9,450,000 voting rights (approximately 9.527% of total voting rights) at the General Meeting;
  - Norica Holding S.à r.l. holds indirectly, through Rainbee, 9,820,352 Company shares, representing approximately 9.8999% of the Company's share capital and carrying 9,820,352 voting rights (approximately 9.8999% of total voting rights) at the General Meeting.
2. TrustService, Norica's parent, holds indirectly through its subsidiary Norica and through its indirect subsidiaries Opansa and Rainbee, 19,841,700 shares in the Company, representing approximately 20.0026% of its share capital and carrying 19,841,700 voting rights (approximately 20.0026% of total voting rights) at the Company's General Meeting.
3. Acron, TrustService's parent, holds indirectly through its indirect subsidiaries Norica, Opansa and Rainbee, 19,841,700 Company shares, representing approximately 20.0026% of the Company's share capital and carrying 19,841,700 voting rights (approximately 20.0026% of total voting rights) at the Company's General Meeting.
4. Subero, Acron's parent, holds indirectly through its indirect subsidiaries Norica, Opansa and Rainbee, 19,841,700 Company shares, representing approximately 20.0026% of the Company's share capital and carrying 19,841,700 voting rights (approximately 20.0026% of total voting rights) at the Company's General Meeting.
5. Mr Kantor, Subero's parent, holds indirectly through its indirect subsidiaries Norica, Opansa and Rainbee, 19,841,700 shares in the Company, representing approximately 20.0026% of its share capital and carrying 19,841,700 voting rights (approximately 20.0026% of total voting rights) at the Company's General Meeting.

For the avoidance of doubt, Norica stated that given the intra-group nature of the transaction, the total number of shares and voting rights held in Grupa Azoty S.A., whether directly or indirectly, by Norica, TrustService, Acron, Subero and Mr Kantor, did not change and still totals 19,841,700 Company shares, representing approximately 20.0026% of the Company's share capital and carrying 19,841,700 voting rights (approximately 20.0026% of total voting rights) at the Company's General Meeting (see Current Report No. 64/2014 of November 1st 2014).

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

Subero notified the Company that apart from Norica, Opansa and Rainbee, none of its subsidiaries held any Company shares.

Acron notified the Parent that apart from Norica, Opansa and Rainbee, none of its subsidiaries held any Company shares.

TrustService notified the Company that apart from Norica, Opansa and Rainbee, none of its subsidiaries held any Company shares.

Norica notified the Company that apart from Opansa and Rainbee, none of its subsidiaries held any Company 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.

Grupa Azoty S.A. was also notified that in the 12 months after the notification date, Mr Kantor, Subero, Norica, Acron and TrustService may from time to time, directly or indirectly, acquire shares in Grupa Azoty S.A. in order to increase their shareholdings and number of voting rights or dispose of Company shares in order to reduce their shareholdings and number of voting rights in the Company.



#### Shareholding structure as at April 23rd 2015

Shareholder	Number of shares	% of share capital	Number of votes	% of voting rights
State Treasury of Poland	32,734,509	33.00	32,734,509	33.00
ING OFE	9,883,323	9.96	9,883,323	9.96
Norica Holding S.à r.l. (indirectly: 19,841,700 shares, i.e. 20.0026%)	571,348	0.57	571,348	0.57
Rainbee Holdings Limited <sup>*)</sup>	9,820,352	9.90	9,820,352	9.90
Opansa Enterprises Limited <sup>*)</sup>	9,450,000	9.53	9,450,000	9.53
TFI PZU S.A.	8,689,591	8.76	8,689,591	8.76
EBRD	5,700,000	5.75	5,700,000	5.75
Other	22,346,361	22.53	22,346,361	22.53
<b>Total</b>	<b>99,195,484</b>	<b>100.00</b>	<b>99,195,484</b>	<b>100.00</b>

<sup>\*)</sup> Direct subsidiaries of Norica Holding S.à r.l.

On October 5th 2015, the Management Board of Grupa Azoty S.A. received a notification of the number of Company shares held by Towarzystwo Funduszy Inwestycyjnych PZU S.A. of Warsaw acting as the fund management company for and on behalf of the following investment funds:

- PZU Fundusz Inwestycyjny Otwarty Parasolowy,
  - PZU Specjalistyczny Fundusz Inwestycyjny Otwarty Universum,
  - PZU Specjalistyczny Fundusz Inwestycyjny Otwarty Globalnych Inwestycji,
  - PZU Fundusz Inwestycyjny Zamknięty Aktywów Niepublicznych BIS 2,
- (collectively: "TFI PZU Funds").

TFI PZU S.A. stated that following the settlement, on October 2nd 2015, of the sale of 8,186,448 Company shares from the portfolio of PZU Fundusz Inwestycyjny Zamknięty Aktywów Niepublicznych BIS 2 and purchase of 8,186,448 Company shares for the portfolio of PZU Specjalistyczny Fundusz Inwestycyjny Otwarty Universum (executed in an off-session block transaction on the Warsaw Stock Exchange on September 30th 2015), the share of the TFI PZU Funds in total voting rights at the Company's General Meeting did not change and was as follows:

Number of shares held prior to and subsequent to the transactions:	8,530,189
% share of the Company's share capital:	8.5994%
Voting rights:	8,530,189
% share of total voting rights:	8.5994%

TFI PZU SA further stated that:

- Within 12 months from the notification date, the holding of Company shares by the TFI PZU Funds may increase or decrease;
- The TFI PZU Funds had no subsidiaries holding Company shares;
- TFI PZU SA, acting in its capacity of the fund manager, may exercise voting rights at the Company's General Meeting on behalf of the TFI PZU Funds.



## Shareholding structure as at October 5th 2015

Shareholder	Number of shares	% of share capital	Number of votes	% of voting rights
State Treasury of Poland	32,734,509	33.00	32,734,509	33.00
ING OFE	9,883,323	9.96	9,883,323	9.96
Norica Holding S.à r.l. (indirectly: 19,841,700 shares, i.e. 20.0026%)	571,348	0.57	571,348	0.57
Rainbee Holdings Limited <sup>*)</sup>	9,820,352	9.90	9,820,352	9.90
Opansa Enterprises Limited <sup>*)</sup>	9,450,000	9.53	9,450,000	9.53
TFI PZU S.A.	8,530,189	8.60	8,530,189	8.60
EBRD	5,700,000	5.75	5,700,000	5.75
Other	22,505,763	22.69	22,505,763	22.69
<b>Total</b>	<b>99,195,484</b>	<b>100.00</b>	<b>99,195,484</b>	<b>100.00</b>

<sup>\*)</sup> Direct subsidiaries of Norica Holding S.à r.l.

In the period from October 5th 2015 to the date of this report, the Company was not officially notified of any changes in the large holdings of its shares.

### 8.5. Special control powers of security holders

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

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

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

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

### 8.6. Restrictions on voting rights

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

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

"Art. 47.3. As long as the State Treasury of Poland or its subsidiaries hold shares in the Company carrying at least one fifth of the total voting rights, the other shareholders' voting rights will be limited in such a manner that no shareholder may exercise more than one fifth of total voting rights at the General Meeting existing on the day of the General Meeting. The limitation on the voting rights referred to in the preceding sentence shall not apply to the State Treasury or any of its subsidiaries. For the purposes of this Art. 47.3, the exercise of voting rights by a subsidiary shall be deemed the exercise of voting rights by its parent as defined in the Act on Public Offering, Conditions Governing the Introduction of Financial Instruments to Organised Trading, and Public

Companies of July 29th 2005 (the "Public Offering Act"), and the terms "parent" and "subsidiary" shall include any entity whose voting rights attached to shares held, directly or indirectly, in the Company are aggregated with the voting rights of another entity or entities, in accordance with the Public Offering Act, in connection with the holding, disposal or acquisition of major holdings in the Company. A shareholder whose voting rights are subject to the limitation shall in any case retain the right to cast at least one vote."

### **8.7. Restrictions on the transferability of securities**

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

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

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

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

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

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

##### **Supervisory Board**

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

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

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

The General Meeting appoints the Chairperson of the Supervisory Board.

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

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

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

"3. The Management Board is authorised to increase the Company's share capital by issuing new shares with a total par value of up to PLN 240,432,915, by way of an increase in the share capital within the limits defined above ("Authorised Share Capital"). An increase in the share capital within the limits of the Authorised Share Capital may be effected only for the purpose and on the terms

and conditions stipulated in Art 10.4 4 below. The Management Board's authorisation to increase the share capital and to issue new shares within the limits of the Authorised Share Capital shall expire within six months from the date of registration of amendments to the Articles of Association stipulating the Authorised Share Capital.

4. Within the limits of the Authorised Share Capital, the Management Board shall be authorised to offer Company shares, with the existing shareholders' pre-emptive rights waived, only to the shareholders of Zakłady Azotowe Puławy S.A. of Puławy, entered in 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 CSDP 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."

## **8.9. Rules governing amendments to the Company's Articles of Association**

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

## **8.10. Operation of the General Meeting**

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

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

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

In particular, the General Meeting has the authority to:

- review and approve the Directors' Report on the Company's operations, the financial statements for the previous financial year, the consolidated financial statements and the Directors' Report on the Group's operations, if prepared by the Company, as well as the annual report of the Supervisory Board, and to grant discharge to members of the Company's governing bodies in respect of their duties,
- adopt resolutions on distribution of profit or coverage of loss,
- adopt the Rules of Procedure for the General Meeting,
- amend the Company's Articles of Association,
- change the Company's business profile,

- approve the disposal or lease of, or creation of limited property rights in, the Company's business or its organised part,
- appoint and remove members of the Supervisory Board (subject to Art.16.2 and Art. 36 of the Articles of Association), and determine the remuneration amounts for members of the Supervisory Board,
- increase or decrease the Company's share capital,
- adopt resolutions on issue of notes, including notes convertible into shares,
- merge, demerge and transform the Company,
- dissolve and liquidate the Company,
- approve buyback of Company shares for retirement and define the conditions for share retirement,
- adopt other resolutions as provided for in applicable laws or the Articles of Association.

### **Shareholder rights and 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 Company's Articles of Association.

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

### **Management Board**

As at January 1st 2015, the composition of the Company's Management Board 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,
- Krzysztof Jałosiński - Vice-President of the Management Board.
- Marek Kapłucha - Vice-President of the Management Board,
- Marian Rybak - Vice-President of the Management Board,
- Artur Kopeć - Member of the Management Board.

2014 was the last full year when members of the Management Board of the ninth term were in office. During its meeting held on January 9th 2015, the Company's Supervisory Board passed resolutions appointing members of the Management Board of the new term. The composition of the Management Board of the 10th 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,
- 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 new term of office. Thus, the Supervisory Board decided to initiate a procedure 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 Management Board.

Until the end of 2015, there were no changes in the Company's Management Board.

### **Events after the reporting date - changes in the composition of the Management Board**

At its meeting held on February 19th 2016, the Company's Supervisory Board made the following changes to the composition of the Company's Management Board:

- Mr Paweł Jarczewski, President of the Management Board, was removed from the Management Board,

- Mr Krzysztof Jałosiński, Vice-President of the Management Board, was removed from the Management Board,
- Mr Marek Kaptucha, Vice-President of the Management Board, was removed from the Management Board,
- Mr Marian Rybak, Vice-President of the Management Board, was removed from the Management Board.

The above resolutions took effect on the date they were adopted.

By resolution of the Supervisory Board, Mr Mariusz Bober was appointed President of the Management Board. The resolution became effective as of its date.

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

A detailed division of powers and responsibilities of the Management Board members is laid down in the Management Board Resolution No. 467/IX/2013, as amended by Resolution No. 639/IX/2014 of April 15th 2014 and Resolution No. 735/IX/2014 of September 8th 2014. By virtue of Resolution No. 8/X/2015 of March 10th 2015, the Management Board of the tenth term of office confirmed the previously effective division of powers. As at December 31st 2015, the scopes of powers and responsibilities of members of the Company's Management Board were as follows:

- Paweł Jarczewski - President of the Management Board, responsible for managing and coordinating the work of the Management Board and Group's Council, oversight of the Agro Business Centre, information policy, HR 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, accounting and IT at the Grupa Azoty Group,
- Witold Szczypiński - Vice-President of the Management Board, Director General, responsible for integration of production processes, plastics and organic synthesis at the Grupa Azoty Group,
- Krzysztof Jałosiński - Vice-President of the Management Board, responsible for strategy and development 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,
- Artur Kopeć - Member of the Management Board, responsible for social dialogue, technical safety and environmental protection at the Grupa Azoty Group.

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

- the Commercial Companies Code of September 15th 2000 (Dz.U. No. 94, item 1037, as amended),
- the Act on Commercialisation and Privatisation of August 30th 1996, as amended,
- the Act on Public Offering, Conditions Governing the Introduction of Financial Instruments to Organised Trading, and Public Companies of July 29th 2005,
- the Act on Trading in Financial Instruments of July 29th 2005,
- and secondary legislation issued on the basis of the above acts,
- provisions of the Company's Articles of Association.

### **Events after the reporting date - new division of powers and responsibilities at the Grupa Azoty Management Board**

By way of Resolution No. 271/X/2016 of February 23rd 2016, the Management Board of the 10th term of office changed the previous division of powers and responsibilities between its members. Following the change, members of the Company's Management Board have the following powers and responsibilities:

- - Mariusz Bober - President of the Management Board, responsible for managing and coordinating the work of the Management Board and the Grupa Azoty Council, overseeing the implementation of the Company's and the Group's strategies, supervising the Agro Business Centre; also responsible for the information policy, HR policy, internal audit functions, risk management, and management of structural and ownership changes at the Group,
- Andrzej Skolmowski - Vice-President of the Management Board, responsible for finance, accounting and IT, oversight of investor relations; liaising with the Vice-President in charge of integration of production processes, plastics and organic synthesis, with the Management Board Member in charge of social dialogue, plant safety and environmental protection, and with the

Managing Director in respect of the Company's day-to-day operational management; also responsible for developing and implementing the logistics strategy, managing the supply logistics for raw materials, intermediate materials and finished products, and for developing and implementing the procurement strategy,

- Witold Szczypiński - Vice-President of the Management Board, Director General of the Company, responsible for strategy and development, integration of production processes, plastics and organic synthesis, strategic feedstock procurement, developing and implementing the Company's and the Group's strategies, overseeing strategic procurement at the Company and the Group; also liaising with the Vice-President in charge of integration of production processes, plastics and organic synthesis, with the Management Board Member in charge of social dialogue, plant safety and environmental protection, and with the Managing Director with respect to management of the Company,
- - Artur Kopeć - Member of the Management Board, responsible for project execution, social dialogue, plant safety and environmental protection; also liaising with the Vice-President in charge of integration of production processes, plastics and organic synthesis, with the Vice-President in charge of finance and with the Managing Director with respect to management of the Company.

### **Supervisory Board**

As at January 1st 2015, the composition of the Supervisory Board was as follows:

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

On December 22nd 2015, by virtue of a letter from the Minister of State Treasury, Ms Ewa Lis was removed from the Supervisory Board pursuant to Art. 16.2 of the Company's Articles of Association, and Mr Przemysław Lis was appointed in her place.

As at December 31st 2015, the composition of the Company's Supervisory Board was as follows:

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

The Supervisory Board operates on the basis of:

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

### **Events after the reporting date - changes in the composition of the Supervisory Board**

At its meeting on January 15th 2016, the Supervisory Board appointed Mr Zbigniew Paprocki as Secretary of the Supervisory Board.

Accordingly, as at January 15th 2016, the composition of the Supervisory Board was as follows:

- Monika Kacprzyk-Wojdyga - Chairperson,
- Jacek Obłękowski - Deputy Chairman,
- Zbigniew Paprocki - Secretary,

- Robert Kapka - Member,
- Tomasz Klikowicz - Member,
- Artur Kucharski - Member,
- Przemysław Lis - Member,
- Marek Mroczkowski - Member,
- Ryszard Trepczyński - Member.

On January 29th 2016, by virtue of a letter from the Minister of State Treasury, Mr Przemysław Lis was removed from the Supervisory Board, and Mr Marek Grzelaczyk was appointed in his place.

On February 1st 2016, by way of Resolutions of the Company's Extraordinary General Meeting, Ms Monika Kacprzyk-Wojdyga and Messrs Marek Mroczkowski, Jacek Obłękowski and Ryszard Trepczyński were removed from the Company's Supervisory Board, while Messrs Maciej Baranowski, Tomasz Karusewicz, Przemysław Lis and Bartłomiej Litwińczuk were appointed as the new members (Mr Przemysław Lis was appointed as the Chairman of the Supervisory Board).

As a result of the above changes, the current composition of the Supervisory Board is as follows:

- Przemysław Lis - Chairman,
- Marek Grzelaczyk - Deputy Chairman,
- Zbigniew Paprocki - Secretary,
- Maciej Baranowski - Member,
- Robert Kapka - Member,
- Tomasz Karusewicz - Member,
- Tomasz Klikowicz - Member,
- Artur Kucharski - Member,
- Bartłomiej Litwińczuk - Member.

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

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

To streamline its work and improve control of the Company and the Group, on July 4th 2013 the Supervisory Board passed Resolution No. 21/IX/2013 on appointment of the Audit Committee, with the following composition:

- Jacek Obłękowski - Chairman,
- Tomasz Klikowicz,
- Marek Mroczkowski.

The rules of operation of the Audit Committee are provided for in the Rules for the Audit Committee, drawn up based on Annex I, sec. 4 (Audit Committee) to the European Council Recommendation of February 15th 2005 on the role of non-executive or supervisory directors of listed companies and on the committees of the (supervisory) board (Official Journal of the European Union L 52/52), and Art. 86 of the Act on Qualified Auditors, Their Self-Government, Entities Qualified to Audit Financial Statements and Public Supervision of May 7th 2009. The Rules were adopted by the Supervisory Board by way of Resolution No. 21/IX/2013 of July 4th 2013. Under the Rules, the main tasks of the Committee include:

- monitoring of the financial reporting process,
- monitoring of the effectiveness of internal control systems,
- monitoring of financial audit,
- monitoring of the independence of the auditor and the entity qualified to audit financial statements,
- monitoring of the audit of separate and consolidated financial statements,
- monitoring of the work of the internal audit team,
- monitoring of the work and reports of the independent statutory auditor,
- analysing selected economic events relevant for the Company's operations.

### **Events after the reporting date - changes in the composition of the Audit Committee**

In connection with the removal, by virtue of resolutions of the Company's General Meeting of February 1st 2016, of the Supervisory Board members who also served as members of the Audit Committee, namely Mr Jacek Obłękowski and Mr Marek Mroczkowski, on February 19th 2016 the Supervisory Board adopted resolutions appointing the following persons as the new Audit Committee members:

- Artur Kucharski,
- Maciej Baranowski,

- Tomasz Karusewicz.

Therefore, as of February 19th 2016, the Audit Committee is comprised of:

- Artur Kucharski - Chairman,
- Maciej Baranowski - Member,
- Tomasz Karusewicz - Member,
- Tomasz Klikowicz - Member.

## 8.12. Remuneration policy

### Remuneration system applicable at the Company

The Company's remuneration policy relies on a negotiation system. Remunerations are set by way of negotiation between the Company's Management Board and the trade unions active at the Company. As part of the negotiation process, the average remuneration growth rate for a given year and the remuneration components to which the growth rate will apply are determined. By the end of February every year, the Management Board and the trade unions sign a remuneration agreement defining the remuneration growth rate and the remuneration components to which the growth rate will apply, as well as the incentive policy for the given year. The key principles governing the terms of employment and remuneration are provided in the Collective Bargaining Agreement and the Work Rules. Persons holding key managerial positions at Grupa Azoty S.A. are hired under management contracts and are not subject to the remuneration policy. Their remuneration comprises a monthly base salary and an annual bonus, whose amount depends on the degree of achievement of individual targets set for a given year.

### Remuneration policy for members of the Management Board

The remuneration of a Management Board member comprises:

- a fixed monthly salary, which includes also remuneration for sitting on the Management Board or Supervisory Board of a subsidiary of Grupa Azoty S.A. (this does not apply to the Management Board member elected by employees, whose remuneration comprises a fixed monthly salary including remuneration for sitting on the Management Board and remuneration due under the employment contract),
- a variable performance-based component, paid in accordance with the rules approved by the Supervisory Board,
- additional employment-related benefits,
- a special bonus (the Management Board member elected by employees is not entitled to receive the special bonus).

Additional benefits may be awarded to the Management Board members by the Supervisory Board, including:

- a length-of-service award, granted not more frequently than every five years,
- a severance pay if employment is terminated due to old age or disability retirement,
- partial reimbursement of the cost of using an apartment made available to a Management Board member, including a company apartment (up to PLN 2,000 per month),
- benefits consisting in using partly paid telecommunication services,
- additional health, property and personal insurance,
- personal indemnity cover, including in connection with share issues,
- the right to use the company car free of charge,
- the right to use the hardware and software owned by the Company to perform the duties of a Management Board member.

The employment contracts of the Management Board members provide for a severance pay amounting to three months' fixed monthly salary equivalent in the event of removal from the Management Board prior to the expiry of the term of office. Members of the Management Board are not entitled to severance pay 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 relevant non-competition agreements, upon termination of employment members of the Management Board are entitled to compensation amounting to 100% of their fixed salary provided for in the employment contract, paid out over a period of twelve months. This right expires on breach of the non-competition agreement.



The above does not apply to the Management Board member elected by employees. The Management Board member elected by employees signs, in addition to his/her employment contract, a non-competition agreement (effective for the duration of his/her employment with the Company), and is not entitled to any compensation under such agreement.

#### Rules governing remuneration of key management personnel

Persons holding key managerial positions at the Company are hired under management contracts. Under the management contracts, the managers are entitled to the following perquisites: a company car, provided on the terms and conditions specified in the Parent's internal regulations, a portable computer and a mobile phone, a fixed amount to cover the cost of accommodation (for some managers).

#### Material changes in the remuneration policy

During the reported year, there were no material changes in the remuneration policy.

#### Evaluation of the remuneration policy

The remuneration policy, established by way of negotiation with the social partners, is closely linked to the Company's financial performance. In accordance with the Collective Bargaining Agreement, the Company's current and forecast economic standing is the basis for determining the remuneration growth for any given year. In addition, the amounts of certain remuneration components, such as the incentive bonus and the annual bonus, depend directly on the financial performance generated by the Company and the degree of achievement of the targets set for the individual managers.

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

	Remuneration paid		Total	Remuneration on potentially due
	fixed remuneration components	variable remuneration components		
Monika Kacprzyk-Wojdyga	198	-	198	-
Jacek Obłękowski	174	-	174	-
Ewa Lis	174	-	174	-
Robert Kapka*	382	-	382	-
Tomasz Klikowicz**	226	1	227	-
Artur Kucharski	148	1	149	-
Marek Mroczkowski	148	1	149	-
Zbigniew Paprocki***	279	1	280	-
Ryszard Trepczyński	148	1	149	-

(\*) including remuneration under employment contract with the Company - PLN 233 thousand,

(\*\*) including remuneration under employment contract with the Company - PLN 78 thousand,

(\*\*\*) including remuneration under employment contract with the Company - PLN 131 thousand,

**Remuneration of the Company's Management Board members for holding office at the Group, paid for the term of office**

	Remuneration paid		Total	Remuneration potentially due*
	fixed remuneration components	variable remuneration components		
Paweł Jarczewski	960	446	1,406	480
Andrzej Skolmowski	388	355	743	420
Witold Szczypiński	729	305	1,034	420
Marek Kapłucha	837	285	1,122	420
Marian Rybak	60	135	195	420
Krzysztof Jałosiński	180	299	479	420
Artur Kopec	533	188	721	270

\* Remuneration potentially due corresponds to a provision created for performance-based annual bonuses, granted in accordance with the rules approved by the Supervisory Board. The annual bonus is planned to be paid in 2016.

**Remuneration of the Company's management and supervisory personnel for holding office at the Group's subsidiaries, paid for the term of office**

	Remuneration paid		Total	Remuneration potentially due*
	fixed remuneration components	variable remuneration components		
Andrzej Skolmowski	452	-	452	-
Witold Szczypiński	110	-	110	-
Marian Rybak	779	221	1,000	390
Krzysztof Jałosiński	660	73	733	333

\* Remuneration potentially due corresponds to a provision created for performance-based annual bonuses, granted in accordance with the rules approved by the Supervisory Board. The annual bonus is planned to be paid in 2016.

### 8.13. Sponsoring, charitable or similar activities

As Grupa Azoty S.A. is a major employer in the Tarnów region, it treats its social responsibility and cooperation with the local community as strategic issues managed on a long-term basis.

Social and sponsorship initiatives are a key element contributing to the implementation of the long-term development strategy of the Grupa Azoty Group. Through its engagement in social and sponsorship initiatives, the Grupa Azoty Group promotes its image of both financially strong and socially responsible business. Because Grupa Azoty S.A. uses natural resources, it undertakes social and sponsorship activities primarily supporting local initiatives and serving the needs of the local population.

The multifaceted and advanced nature of these activities make Grupa Azoty S.A. an active participant of the local community life, providing support where it is most needed. The social and sponsorship activities are pursued in compliance with the "Grupa Azoty Group Policy on Social and Sponsorship Activities and its Operation at the Group", formulated and implemented in 2013, and charitable initiatives are governed by the "Grupa Azoty Group Donation Policy" and the "Grupa Azoty S.A. Donation Policy", adopted in 2013.

The Company has adopted the following directions for its the social and sponsorship activities:

- Driven by the sense of responsibility for the local communities in which individual companies of the Grupa Azoty Group operate, the Management Board of Grupa Azoty S.A. declares that, together with the subsidiaries, it will undertake voluntary initiatives, including investment projects benefiting the local community, solving social issues, and charitable assistance in the form of cash and non-cash donations and services, addressed directly to the community and charitable organisations, NGOs and non-profit organisations.

- Social and sponsorship projects relating to local initiatives, often with a supraregional, or even international, media coverage, will be implemented by the individual companies of the Grupa Azoty Group.
- Social and sponsorship projects relating to nationwide or international initiatives, going beyond the framework of local initiatives, will be undertaken by the Group's Parent, Grupa Azoty S.A., acting for the entire Grupa Azoty Group.

Grupa Azoty S.A. supports sports events and cultural initiatives, including mass cultural events, educational institutions for children and youth, healthcare institutions providing services to employees and their families, research programmes, regional environmental initiatives and social campaigns.

## 9. Other material information and events

### 9.1. Qualified auditor

The agreement with KPMG Audyt Sp. z o. o., executed on July 10th 2012, and the following annexes thereto:

- Annex 1 of October 15th 2013,
- Annex 2 of December 23rd 2014,

cover the following:

- audit of separate and consolidated financial statements for the 12 months ended December 31st 2012, December 31st 2013, December 31st 2014, December 31st 2015 and December 31st 2016,
- review of separate and consolidated financial statements for the six months ended June 30th 2012, June 30th 2013, June 30th 2014, June 30th 2015 and June 30th 2016,
- organisation of workshops.

Other services included primarily RES, Art. 44 of the Energy Law, derogations, accounting opinions, translation of financial statements, and preparation of a report on meeting financial covenants.

#### Remuneration paid to KPMG Audyt Sp. z o.o.

Item	2015	2014
Audit of the full-year separate and consolidated financial statements of the Parent and the Group	187	225
Review of the half-year separate and consolidated financial statements of the Parent and the Group	89	105
Other services	267	69
	<b>543</b>	<b>399</b>

### 9.2. Environmental performance

#### Sustainable development

The Grupa Azoty Group considers sustainable development issues to be of strategic importance. Relying on the "Azoty Tarnów Group Strategy for 2012-2020", the Group is following a strategy of sustainable development and corporate social responsibility based on the model solution adopted by the Company. The strategic approach dictates how the Grupa Azoty Group will drive value for stakeholders while pursuing its economic goals. Sustainable development is managed on the strategic level, which contributes to streamlining processes in the Group's key operating areas. The Grupa Azoty Group is a large-scale business spanning many countries, therefore its activities are reported in a systematic, transparent and reliable manner in annual reports and environmental impact reports.

The implementation of corporate social responsibility principles rests on three pillars.

The strategic objectives of the Grupa Azoty Group in the "sustainable production" area are to:

- Reduce the environmental impact of the Group companies,
- Foster partnerships with research institutions,
- Raise environmental awareness,
- Develop sustainable products, and
- Continue the engagement in improving workplace and plant safety and maintain the dialogue with their external stakeholders.

The strategic objectives of the Grupa Azoty Group in the "dialogue and relationship building" area are to:

- Promote the development of local communities,
- Define the forms of dialogue with each of the key stakeholder groups, maintain effective communication relating to sustainable development,
- Build a culture of ethics.

The strategic objectives of the Grupa Azoty Group in the "workplace" area are to:

- Improve employee satisfaction,
- Improve workplace safety and health protection,
- Provide staff development opportunities.

### **Respect Index**

The Company has been a constituent of the RESPECT Index since November 19th 2009, which stands as a testament to the Grupa Azoty Group's care for sustainable development and responsible management.

The selection of companies to be included in the Index is made in a three-stage process. The criteria 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. In 2015, the Company participated in yet another evaluation of corporate social responsibility in public companies and was awarded a diploma as a Respect Index constituent.

### **Management standards**

In April 2013, the Grupa Azoty Group introduced the Enterprise Management Policy. The Policy defines the general plans and directions for the Group. The amended Enterprise Management Policy sets out the mission, vision and strategic objectives of the Group companies implemented based on management systems compliant with the highest international standards.

To accomplish this mission, the following strategic objectives have been set:

- Increasing the scale of operations in core areas through organic growth, alliances and M&As, both in Poland and abroad,
- Advancing integration within the Group to maximise operating synergies,
- Reducing the Group's sensitivity to energy costs through the use of technological and energy-efficient solutions,
- Reducing the Grupa Azoty Group's sensitivity to changing economic cycles and prices of natural gas and petrochemical commodities by extending product chains,
- Reducing production costs through upgrades of key production lines,
- Building stable and effective customer relations, increasing the brand awareness of leading products of the Group, and optimising product logistics and distribution,
- Improving the effectiveness of key processes and of knowledge gathering and management,
- Continuously adapting product quality to customer requirements,
- Horizontal diversification, leveraging synergies with the existing product portfolio,
- Continuous product and service improvement using innovative technologies.

The Group companies pursue strategic objectives based on management systems conforming to the highest international standards. Operating priorities, such as high quality, care for technical safety and the environment, health safety of food, reducing environmental losses, giving priority to customers, are all efficiently monitored and ensure effective management.

In its operations, the Grupa Azoty Group complies with all applicable laws and regulations and strives to constantly improve the results of its operations and minimise the risks associated with it.

## Management systems

The Grupa Azoty Group pursues a Management Policy which guarantees that strategic goals are achieved in reliance on an integrated management system consistent with international standards. The operating priorities: high quality and care for technical safety and the environment, are all efficiently monitored and facilitate effective management. The Integrated Management System is structured around the following principles assuming giving priority to customers, reducing environmental losses and mitigating the risk of hazards, and continuous improvement.

Grupa Azoty S.A. has implemented:

- Quality Management System compliant with the ISO 9001:2008 standard,
- Environmental Management System compliant with the ISO 14001:2004 standard,
- Occupational Health and Safety Management System compliant with the PN-N-18001:2004 and BS OHSAS 18001:2007 standards,
- Food Safety Management System compliant with the ISO 22000:2005 standard,
- PN-EN ISO/IEC 17025:2005 Management System (general requirements for the competence of testing and calibration laboratories),
- Automotive Industry Quality Management Standard implemented in accordance with the ISO/TS 16949:2009 standard,
- Responsible Care Framework Management System compliant with the guidelines of the European Chemical Industry Council,
- Management Standard compliant with the Fertilizers Europe Product Stewardship Standard,
- a corporate risk management system in 2014.

## 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.

The companies have devised and implemented appropriate incident prevention programmes, and safety matters are subject to regular reporting. Moreover, 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, OHS and fire safety. The legislation imposes certain obligations on Group companies with respect to production activities, investment projects, site restoration and creating appropriate conditions for the manufacture, storage, transport and distribution of products. In 2014, the Company updated, and adapted to the current legal requirements, the Safety Report – General Section with analyses of process risk for units posing a major risk of serious chemical plant failure, Internal Rescue Operation Plan, Industrial Accident Prevention Programme and High Risk Establishment Notification. The documents were approved in 2015 by the Province Commander in Chief of the National Fire Service. Following the implementation of the Seveso III Directive and the amendment of the Environmental Protection Law, the "Grupa Azoty S.A. Safety Guidelines" have been updated.

The Group companies operate appropriate organisational and technical safety measures, such as CCTV systems, safeguards, and procedures for incident prevention and mitigation of consequences. The Grupa Azoty Group maintains 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.

As of January 1st 2007, the REACH Regulation obliges all European producers and importers of chemical substances to register them. Furthermore, authorisations are necessary to use certain substances of very high concern. To register a substance, producers and importers must submit appropriate documentation, including test results and a chemical safety assessment, to the European Chemicals Agency (ECHA).

Pursuant to applicable regulations, the Group's products are treated as chemical substances or mixtures and are subject to Regulation (EC) No. 1907/2006 REACH. These regulations commit

producers to properly assess the safety of produced substances. Substances cannot be marketed without prior registration according to REACH.

The Group has fulfilled its obligation to register all substances it manufactures. To this end, Group companies have prepared and published documents conforming to the REACH Regulation requirements for all marketed products and update them whenever required. The registration required a risk assessment which, in the case of hazardous substances (e.g. fertilisers, chemicals, monomers), was based on a broad range of laboratory tests and epidemiological data. The safety assessments served as the basis for preparing chemical safety reports. Such reports cover hazards to humans and the environment throughout the entire life-cycle of a substance. They describe hazards involved in the production of a given substance and in its use by the industry and consumers, as well as its utilisation processes.

In accordance with the REACH Regulation, entities using hazardous substances are required to report any hazards associated with their use which were not identified by the producer as part of the registration process. Information on potential hazards related to chemical substances and mixtures is provided to customers in the form of MSDSs. MSDS drafting and updating procedures have been implemented at the Group, along with a system ensuring their full availability to customers.

Also, relevant procedures for product labelling (vehicles and packaging) have been put in place, to the extent required by the REACH Regulation, and by Regulation (EC) No. 1272/2008 on classification, labelling and packaging of substances and mixtures (CLP). The procedures reflect the new classification based on research under REACH registration. The Group fulfils its obligations as a downstream user of chemical substances on a regular basis.

In 2015, the process of consolidation and close collaboration between the REACH departments within the Group companies continued. Updates and registration of chemicals and chemical substances were completed as required by the decision of the European Chemicals Agency of 2014. The Group has applied to ECHA for REACH authorisation of trichloroethylene used for extraction in the caprolactam production process. In Q1 2016, ECHA will authorise the continued use of trichloroethylene.

The registrations and authorisations obtained by the Group reflect the current business scope of the Group companies. Pursuant to the REACH Regulation, registration of further substances will be necessary in 2018.

## **SPOT**

With the safety of people, their property and natural environment in mind, the Grupa Azoty Group's plants offer assistance in the event of incidents involving transport of hazardous materials. In 2000, Grupa Azoty KĘDZIERZYN along with a group of other chemical manufacturers and the Polish Chamber of Chemical Industry established the Assistance System for Transport of Hazardous Materials (SPOT) Association. Grupa Azoty S.A. joined the Association a year later with Grupa Azoty POLICE following suit in 2002.

The system aids in recovery from incidents involving transport of hazardous materials. It helps to improve the safety of transport in Poland, and in case of any incidents it facilitates effective removal of their consequences by joint effort and measures of the national rescue, fire services and SPOT members. SPOT's help in actively preventing potential threats and damage to property as well as in providing assistance to rescue services allows hazardous materials to be transported in as safe and reliable a manner as possible.

## **Responsible growth**

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.

Key projects implemented at Grupa Azoty S.A. in 2015 included:

- Efforts to further optimise the production of caprolactam, one of the key products of the Company. The work was designed to improve caprolactam quality, reduce energy consumption and mitigate environmental impact;
- Upgrade of iron-chromium catalyst production technology. Efforts were undertaken to modernise the iron-chromium catalyst production to improve product characteristics and minimise its environmental impact;

- A two-year research project to reduce the environmental footprint of manufacturing processes through comprehensive processing of waste streams containing sodium sulfate with the use of electromembrane methods was initiated.

### **Environmental projects**

In 2015, Grupa Azoty S.A. implemented a number of investment projects designed to better protect the natural environment:

The key environmental projects in 2015 included the construction of a flue gas desulfurization unit and flue gas denitrification unit.

The projects were undertaken to ensure compliance of the Parent's industrial combustion sources with the requirements laid down in the Minister of Environment's Regulation on Emission Standards for Installations of April 22nd 2011 and the Industrial Emissions Directive. The projects involve upgrading the existing CHP-2 infrastructure and bringing it into compliance with the new requirements. As a result, the amount of pollutants emitted into the atmosphere by the combustion sources will be reduced, improving air quality. Both projects were co-financed under the Norwegian Financial Mechanism 2009-2014.

Their completion is planned for 2016.

### **Water and wastewater management**

In Azoty Group S.A. water is used for industrial purposes, as a cooling agent, for drinking, to produce process waters, and by fire services. Grupa Azoty S.A. draws water from two sources – a surface intake on the right bank of the Dunajec river and an underground intake from Quaternary water-bearing formations (first aquifer). The allowed amounts of water drawn are specified in the relevant water-law permits.

Grupa Azoty S.A.'s industrial facilities generate the following types of industrial wastewater: process wastewater, sanitary sewage, spent cooling water as well as stormwater. Industrial wastewater is routed for treatment via an underground industrial sewer system and trestle-supported sewer lines. Depending on origin, industrial wastewater is transported to either the Central Wastewater Treatment Plant or the Biological Wastewater Treatment Plant. Industrial wastewater and sanitary sewage undergo mechanical and chemical treatment at the Central Wastewater Treatment Plant. The Biological Wastewater Treatment Plant receives industrial wastewater containing biodegradable substances. This type of wastewater is then additionally streamed to the Wastewater Treatment Facility operated by the Tarnów Water and Sewage Utility (Zakład Oczyszczalni Ścieków Tarnowskich Wodociągów Sp. z o.o.). Stormwater and spent cooling water from Grupa Azoty S.A. are drained separately, collected in a retention pond and then directed through a Sutro weir into the Dunajec river.

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

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

### **Solid waste management**

The main types of waste generated by Grupa Azoty S.A. are ash and slag. Wet ash was reused and fly ash was delivered to customers for use in the construction industry. Approximately 78% of hazardous waste was spent oils and lubricants. All oils and lubricants were picked up by MIS-Polska, and subsequently delivered to a refinery, where the waste is used to manufacture new oil.

Grupa Azoty S.A. recycles its plastic waste in the Compounding PA6 and Compounding POM units. In 2015, 99 tonnes of plastics were recovered at these units.

The Company also operates a selective waste collection programme (for waste paper, plastics, wood, glass, used batteries, and used electric and electronic equipment). With environmental concerns in mind, in contracts with external providers of waste collection services and services involving generation of waste Grupa Azoty S.A. incorporates a clause requiring the providers to reuse or dispose of the waste collected from the Company in accordance with environmental protection laws and the waste act. Grupa Azoty S.A. also works with Branżowa Organizacja Odzysku S.A. and the Polish Chamber of Commerce to meet the appropriate targets applicable to recovery and recycling of packaging waste, including composite and hazardous materials packaging waste.

## Emissions

Grupa Azoty S.A. has implemented a range of environmental protection solutions contributing to lower air emissions.

The air protection equipment reduces the amount of flue gases and particulate matter discharged into the atmosphere:

- Particulate matter emissions can be reduced thanks to the use of wet scrubbers, cyclones, multicyclones and electrostatic precipitators;
- the reduction in pollutant emissions in gases was achieved through scrubbers and thermal reducers.

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

In an effort to preserve clean air, Grupa Azoty S.A. constantly monitors air quality in five sites across Tarnów. The locations of the measurement sites were selected to span the wide area that may be affected by particulate matter and gas emissions from the plant.

## Joint Implementation Project

The Joint Implementation Project, launched in the second half of 2008, was successfully completed at the end of 2012. The project was run by Grupa Azoty S.A. in partnership with Japan's Mitsubishi Corporation following the signing of the Kyoto Protocol, with a view to reducing GHG emissions, including nitrous oxide produced by the KDC nitric acid unit.

Over the project's duration (2008-2012), a total of 2,670,356 ERUs were generated, producing a profit in excess of PLN 100m.

Due to its importance, the project was monitored and supervised by management staff and unit operators on an ongoing basis during the entire period. The generated ERUs were subject to repeated reviews by an external company, and the units were placed for trading only after a final report was approved, confirming the correct application of the required standards and methodologies.

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

## Noise

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.

The selection of equipment featuring proper noise emission parameters or methods of reducing noise applies to workplace noise as well as noise emitted to the environment. In accordance with the integrated permits, noise generation must not exceed the permitted levels.

The main sources of noise affecting the acoustic climate include sources related to the operation of process units (compressors, turbocompressors, reactor and distiller agitators, granulator drive motors), sources related to ancillary process units (such as transmission pipelines, pump systems, fans, cooling facilities, screw and belt conveyors), sources related to the operation of machinery and equipment during the start-up and shut down of process units.

Typical means of reducing noise nuisance are applied, including:

- installing soundproof enclosures,
- placing equipment in buildings and casings,
- exhaust silencers.

According to meter readings, the noise generated near Grupa Azoty S.A. facilities does not exceed the permitted levels.

## CO<sub>2</sub> emissions

In April 2015, Grupa Azoty S.A. received a free allocation of greenhouse gas emission allowances for 2015: 649,001 Mg with total emissions standing at 1.2m CO<sub>2</sub>.



## 10. Supplementary information

### **Explanation of differences between actual performance and financial forecasts for 2015**

As no forecasts for 2015 have been published, the position of the Company's Management Board concerning achievement of such forecasts is not presented.

### **Litigation**

Grupa Azoty S.A. is not a party to any proceedings concerning debt or liabilities whose value would equal or exceed 10% of its equity.

The total value of all proceedings involving the Company does not exceed 10% of its equity.

### **Significant related-party transactions**

In 2015, the Company did not execute any related-party transactions otherwise than on arm's length terms.

### **Changes in the organisational structure of Grupa Azoty S.A.**

There were no changes in the Company's organisational structure.

### **Branches owned by the Company**

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

### **Shares, share issues**

The Company holds no treasury shares.

In 2015, the Company did not issue, redeem or repay any debt or equity securities. The Company had spent the proceeds from Public Offerings by the end of 2013. The proceeds were used in line with the original issue objectives.

There are no agreements known to the Company which may cause future changes in the percentages of shares held by the existing shareholders and bondholders

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

This Directors' Report on the Operations of Grupa Azoty S.A. for the 12 months ended December 31st 2015 contains 74 pages.

#### Signatures of the Members of the Management Board

.....  
Mariusz Bober  
*President of the Management Board*

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

.....  
Witold Szczypiński  
*Vice-President of the Management Board*  
*Director General*

.....  
Artur Kopec  
*Member of the Management Board*

Tarnów, March 8th 2016