



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

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1. General information on the Grupa Azoty Group

1.1. Organisation and structure

The Grupa Azoty Group is one of major Central European chemical groups with a strong presence on the market of mineral fertilizers, engineering plastics, OXO products and other chemicals. Grupa Azoty has brought together companies with different traditions and complementary business profiles, seeking to leverage their potential to deliver a common strategy. This has led to the creation of Poland's largest chemical company and a major industry player in Europe. Thanks to its carefully designed structure, the Group offers a diverse product mix, ranging from nitrogen and compound fertilizers, engineering plastics, to OXO products and melamine.

Grupa Azoty S.A., the Parent of the Grupa Azoty Group, has been listed on 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.

As at December 31st 2015, the Grupa Azoty Group (the "Grupa Azoty Group" or "Group") comprised Grupa Azoty S.A. (the "Parent") and ten subsidiaries, including:

nine companies in which the Parent holds ownership interests above 50%:

- Grupa Azoty Zakłady Azotowe Puławy S.A. (Grupa Azoty PUŁAWY),
- Grupa Azoty Zakłady Azotowe Kędzierzyn S.A. (Grupa Azoty KĘDZIERZYN),
- Grupa Azoty Zakłady Chemiczne Police S.A. (Grupa Azoty POLICE),
- Grupa Azoty ATT Polymers GmbH,
- Grupa Azoty Polskie Konsorcjum Chemiczne Sp. z o.o. (Grupa Azoty PKCh Sp. z o.o.),
- Grupa Azoty Koltar Sp. z o.o. (Grupa Azoty KOLTAR Sp. z o.o.),
- Grupa Azoty Kopalnie i Zakłady Chemiczne Siarki Siarkopol S.A. (Grupa Azoty SIARKOPOL),
- Grupa Azoty Folie Sp. z o.o.,
- Grupa Azoty Compounding Sp. z o.o.

and one indirectly controlled subsidiary:

- Navitrans Sp. z o.o. w likwidacji (in liquidation).

Further:

- Grupa Azoty PUŁAWY is the parent to nine subsidiaries, and holds ownership interests in four associates,
- Grupa Azoty KĘDZIERZYN is the parent to one subsidiary and holds ownership interests in two associates,
- Grupa Azoty POLICE is the parent to nine subsidiaries, and holds ownership interests in two associates,
- Grupa Azoty PKCh Sp. z o.o. is the parent to three subsidiaries.

Parent

The Company'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, obtained through polymerisation of caprolactam, produced in Tarnów. It also specialises in the production of nitrogen-sulfur fertilizers.

Parent's subsidiaries

Grupa Azoty Zakłady Azotowe Puławy S.A.

The company has its registered office in Puławy, at Al. Tysiąclecia Państwa Polskiego 13. Since April 4th 2013, it has been trading under the name Grupa Azoty Zakłady Azotowe Puławy Spółka Akcyjna (abbreviated to Grupa Azoty PUŁAWY).

Grupa Azoty PUŁAWY specialises in the production of nitrogen fertilizers and is one of the largest melamine manufacturers in the world.

Grupa Azoty Zakłady Azotowe Kędzierzyn Spółka Akcyjna

The company has its registered office in Kędzierzyn-Koźle, at ul. Mostowa 30A. Since January 11th 2013, it has been trading under the name Grupa Azoty Zakłady Azotowe Kędzierzyn Spółka Akcyjna (abbreviated to Grupa Azoty ZAK or Grupa Azoty KĘDZIERZYN).

The company's two main business pillars are nitrogen fertilizers and OXO products (OXO alcohols and plasticisers).

Grupa Azoty Zakłady Chemiczne Police Spółka Akcyjna

The company has its registered office in Police, at ul. Kuźnicka 1. Since June 3rd 2013, it has been trading under the name Grupa Azoty Zakłady Chemiczne Police Spółka Akcyjna (abbreviated to Grupa Azoty POLICE).

Grupa Azoty POLICE is a major manufacturer of compound and nitrogen fertilizers, as well as titanium white.

Grupa Azoty ATT Polymers GmbH

The company's registered office is located in Guben, Germany. Since July 10th 2013, it has been trading under the name Grupa Azoty ATT Polymers GmbH.

It is a manufacturer of polyamide 6 (PA6).

Grupa Azoty Polskie Konsorcjum Chemiczne Spółka z ograniczoną odpowiedzialnością

The company's registered office is located in Tarnów, at ul. Kwiatkowskiego 7.

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

Grupa Azoty PKCh provides comprehensive design services encompassing complete design support for investment projects in the chemical industry – from study and concept works to process and construction design and working plans for services during the construction, start-up and operation of process units.

Grupa Azoty Koltar Spółka z ograniczoną odpowiedzialnością

The company's registered office is located in Tarnów, at ul. Kwiatkowskiego 8.

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

Grupa Azoty Koltar provides railway transport services throughout the country. It is one of the few organisations in Poland to have licences required to perform comprehensive repairs of rail car chassis and tank cars suitable for transporting hazardous materials according to RID.

Grupa Azoty Kopalnie i Zakłady Chemiczne Siarki Siarkopol Spółka Akcyjna

The company's registered office is located in Grzybów. Since February 11th 2014, it has been trading under the name Grupa Azoty Kopalnie i Zakłady Chemiczne Siarki Siarkopol Spółka Akcyjna (abbreviated to Grupa Azoty Kopalnie i Zakłady Chemiczne Siarki Siarkopol S.A. or Grupa Azoty SIARKOPOL).

Grupa Azoty SIARKOPOL is Poland's largest producer of liquid sulfur.

Grupa Azoty Folie Spółka z ograniczoną odpowiedzialnością

The company's registered office is located in Tarnów.

Its core business is research and development in technical science.

Grupa Azoty Compounding Spółka z ograniczoną odpowiedzialnością

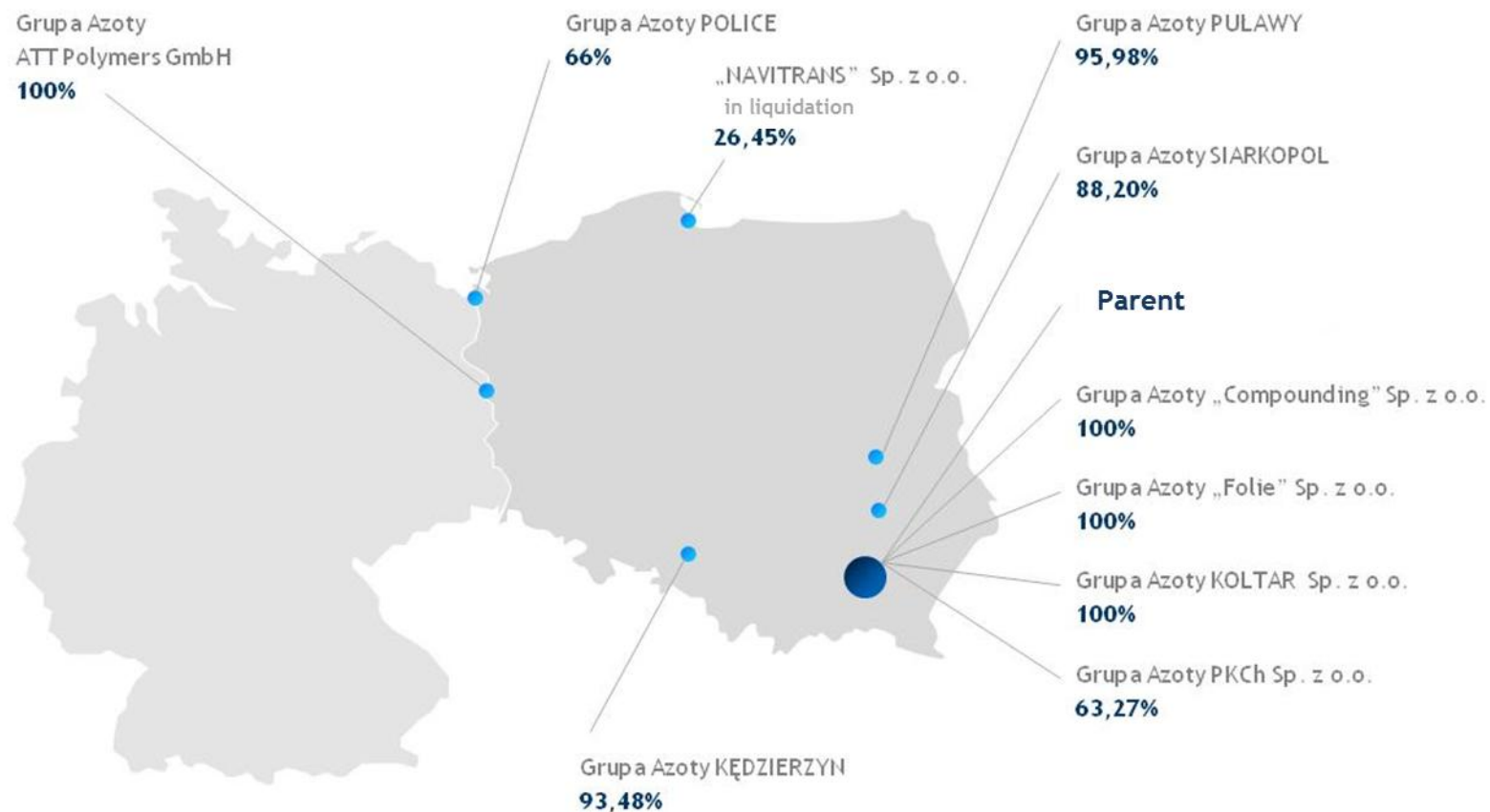
The company's registered office is located in Tarnów.

Its business model is based on a portfolio of specialised engineering plastics made through compounding of plastics, with the use of innovative technological solutions.

Parent's shareholdings in subsidiaries as at December 31st 2015

			<i>(currency)</i>
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

The Parent and its subsidiaries as at December 31st 2015



1.2. Changes in the organisational structure

Merger of Remech Sp. z o.o. and Automatika Sp. z o.o.

On May 11th 2015, the General Meetings of the two companies adopted identical resolutions approving the merger of the companies in accordance with Art. 492.1.1 of the Polish Commercial Companies Code, through the transfer of all assets of Automatika Sp. z o.o. (the acquiree) to Remech Sp. z o.o. (the acquirer). The entity established following the merger changed its name to Grupa Azoty Police Serwis Sp. z o.o. The changes were entered in the National Court Register on June 1st 2015.

Removal of Hotel Centralny Sp. z o.o. w likwidacji (in liquidation) from the National Court Register

On June 24th 2015, Hotel Centralny Sp. z o.o. w Likwidacji (in liquidation) was removed from the National Court Register, following the closing of the liquidation process.

Commencement of lease of Ammono by Grupa Azoty Folie Sp. z o.o.

On July 24th 2015, Grupa Azoty Folie Sp. z o.o. and the bankruptcy administrator of Ammono S.A. entered into a lease agreement. Pursuant to a decision made by the Management Board of Grupa Azoty S.A. on July 23rd 2015, Grupa Azoty Folie Sp. z o.o. acts as a manager of the leased business of Ammono S.A. w upadłości likwidacyjnej (in liquidation bankruptcy). The lease commenced on August 1st 2015. Ammono's business profile includes manufacturing of gallium nitride substrates for optoelectronics and high power and frequency devices.

Commencement of liquidation of Navitrans Sp. z o.o.

On September 4th and October 4th 2015, the Extraordinary General Meetings of Navitrans Sp. z o.o. passed resolutions concerning dissolution of the company, dismissal of its Management Board, and appointment of the company's liquidator. The resolutions were registered with the National Court Register on October 21st 2015.

On September 16th 2015, announcements were published in *Monitor Sądowy i Gospodarczy*, calling on the company's creditors to lodge their debt claims within three months from the date of the announcement. On October 6th 2015, the liquidation opening balance sheet was approved and the place of keeping the company's books and documents after its dissolution was chosen. On December 2nd 2015, the company's financial statements for the period from January 1st to September 3rd 2015 were approved.

Merger of Agrochem Puławy Sp. z o.o. and Unibaltic Agro Sp. z o.o.

On September 11th 2015, a merger of Agrochem Puławy Sp. z o.o. (acquirer) and Unibaltic Agro Sp. z o.o. (acquiree) was registered. The merger was effected through the transfer of the acquiree's assets to the acquirer, without increasing the share capital of the latter.

Execution of a conditional agreement to sell shares in Remzap Sp. z o.o.

On December 10th 2015, Grupa Azoty PUŁAWY signed a conditional agreement to sell 24,486 shares in Remzap Sp. z o.o., with a par value of PLN 70 per share and total par value of PLN 1,714 thousand, representing 95.74% of the total number of shares in Remzap Sp. z o.o., to Remin Sp. z o.o., an employee-owned company. The agreement was to take effect upon fulfilment of the conditions precedent, before February 8th 2016.

On February 4th 2016, an annex was signed to the agreement to sell 24,486 shares in Remzap, representing 95.74% of the total number of shares, to Remin Sp. z o.o., an employee-owned company, whereby the deadline for the fulfilment of the conditions precedent by the buyer was postponed to March 24th 2016.

Sale of an equity interest in Medical Sp. z o.o.

On December 10th 2015, Grupa Azoty PUŁAWY signed an agreement to sell 1 share in Medical Sp. z o.o., with a non-equal par value of PLN 1,825.5 thousand, representing 95.19% of the company's share capital, to MED-LEK Sp. z o.o., an employee-owned company. The agreement came into effect on December 30th 2015.

Acquisition of shares in Grupa Azoty Africa S.A.

On December 23rd 2015, African Investment Group S.A. purchased one share in Grupa Azoty Africa S.A. from Grupa Azoty POLICE.

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

Interests held by the subsidiaries in the share capitals of other entities of the Grupa Azoty Group, as at December 31st 2015

Grupa Azoty PUŁAWY

Company	Ownership interest (%)	Share capital
Agrochem Sp. z o.o.	100%	20,000
Agrochem Puławy Sp. z o.o.	100%	50,000
Elektrownia Puławy Sp. z o.o.	100%	92,148
SCF Natural Sp. z o.o.	99.99%	15,001
Gdańskie Zakłady Nawozów Fosforowych Fosfory Sp. z o.o.	99.19%	59,003
STO-ZAP Sp. z o.o.	96.15%	1,117
Remzap Sp. z o.o.	94.61%	1,812
Zakłady Azotowe Chorzów S.A.	92.33%	58,700
Prozap Sp. z o.o.	84.69%	826
Bałtycka Baza Masowa Sp. z o.o.	50%	19,500
CTL Kolzap Sp. z o.o.	49%	2,000
Navitrans Sp. z o.o. w likwidacji (in liquidation)	26.45%	76
Technochimserwis S.A. (closed joint-stock company)	25%	RUB 800 (thousand)

In addition, Bałtycka Baza Masowa Sp. z o.o. holds a 26.45% interest in the share capital of Navitrans Sp. z o.o. w likwidacji (in liquidation).

Grupa Azoty KĘDZIERZYN

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

Grupa Azoty POLICE

Company	Ownership interest (%)	Share capital
PDH Polska S.A.	100.00	60,000
Supra Agrochemia Sp. z o.o.	100.00	19,721
Transtech Usługi Sprzętowe i Transportowe Sp. z o.o.	100.00	9,783
Grupa Azoty Police Serwis Sp. z o.o.	100.00	9,618
Koncept Sp. z o.o.	100.00	512
Grupa Azoty Africa S.A.	99.99	XOF 132,000 (thousand)
Zarząd Morskiego Portu Police Sp. z o.o.	99.98	32,617
African Investment Group S.A.	54.90	XOF 340,000 (thousand)
Infrapark Police S.A. w likwidacji (in liquidation)	54.43	9,559
Budchem Sp. z o.o. w upadłości likwidacyjnej (in liquidation bankruptcy)	48.96	1,201
Kemipol Sp. z o.o.	33.99	3,445

Shares in subsidiaries indirectly attributable to Grupa Azoty POLICE as at December 31st 2015

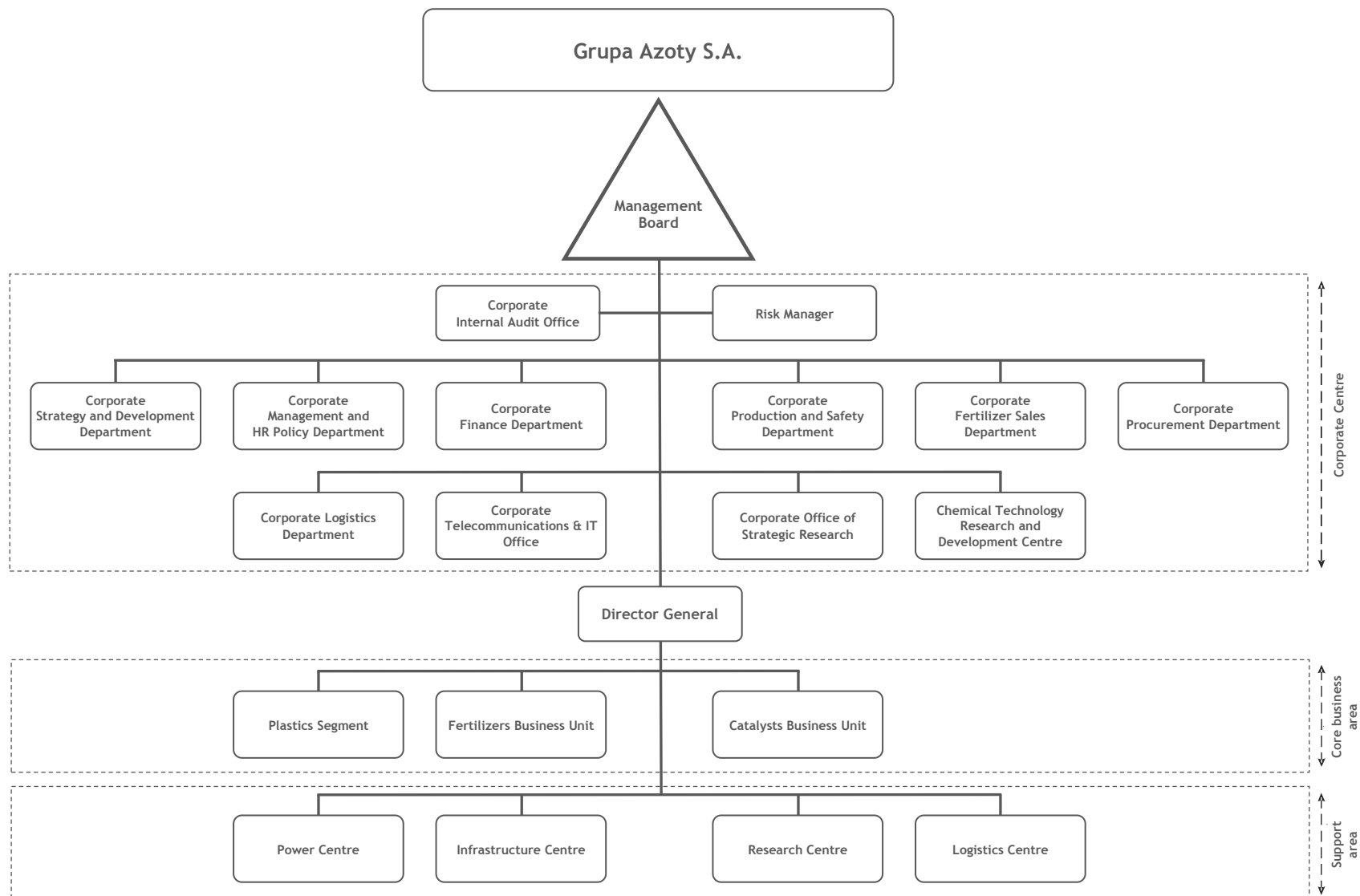
Company	Ownership interest (%)	Share capital
African Investment Group S.A.	0.10	XOF 340,000 (thousand)
Grupa Azoty Africa S.A.	0.01	XOF 132,000 (thousand)
AFRIG Trade SARL	55.00	XOF 33,000 (thousand)

Grupa Azoty PKCh Sp. z o.o.

Company	Ownership interest (%)	Share capital
Grupa Azoty Jednostka Ratownictwa Chemicznego Sp. z o.o.	100%	21,749
Grupa Azoty Prorem Sp. z o.o.	100%	11,567
Grupa Azoty Automatyka Sp. z o.o.	79.69%	4,547

2. Management policy

2.1. Organisational chart



2.2. Changes in key management principles

Consolidation – the Group management model

Formal and legal actions completed:

- Preparation and implementation of Internal Audit Standards for the Grupa Azoty Group and Internal Audit Rules for the Parent;
- 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 CO₂ 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 CO₂ emission allowances joint management model;
- Increase in the number of members of the Risk Management Steering Committee and expansion of the concept for implementing the enterprise risk management process at other companies (Grupa Azoty SIARKOPOL, Gdańskie Zakłady Nawozów Fosforowych Fosfory Sp. z o.o., Zakłady Azotowe Chorzów S.A.);
- 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 the Grupa Azoty Group

	as at Dec 31 2015	as at Dec 31 2014
Employee group		
blue collar employees	8,881	9,034
white collar employees	5,087	4,946
Total	13,968	13,980

Number of employees at consolidated subsidiaries

	as at Dec 31 2015	as at Dec 31 2014
Employee group		
blue collar employees	7,591	7,731
white collar employees	4,271	4,161
Total	11,862	11,892

Number of employees at the Group: average for the year and as at the end of 2015

	average annual	as at Dec 31 2015
Employee group		
blue collar employees	8,950	8,869
white collar employees	4,978	5,070
Total	13,928	13,939

Number of employees at consolidated subsidiaries: average for the year and as at the end of 2015

	average annual	as at Dec 31 2015
Employee group		
blue collar employees	7,658	7,597
white collar employees	4,214	4,271
Total	11,872	11,862

Employee turnover from January 1st to December 31st 2015

	2015
New hires	1,015
Terminated employees	1,027

Workforce structure by education

Description	Year	Total workforce	University or equivalent			
			Secondary	Vocational	Primary	
Number of employees	2015	13,968	3,899	5,852	3,421	796
Number of employees	2014	13,980	3,722	5,757	3,610	891

Workforce structure by length of service

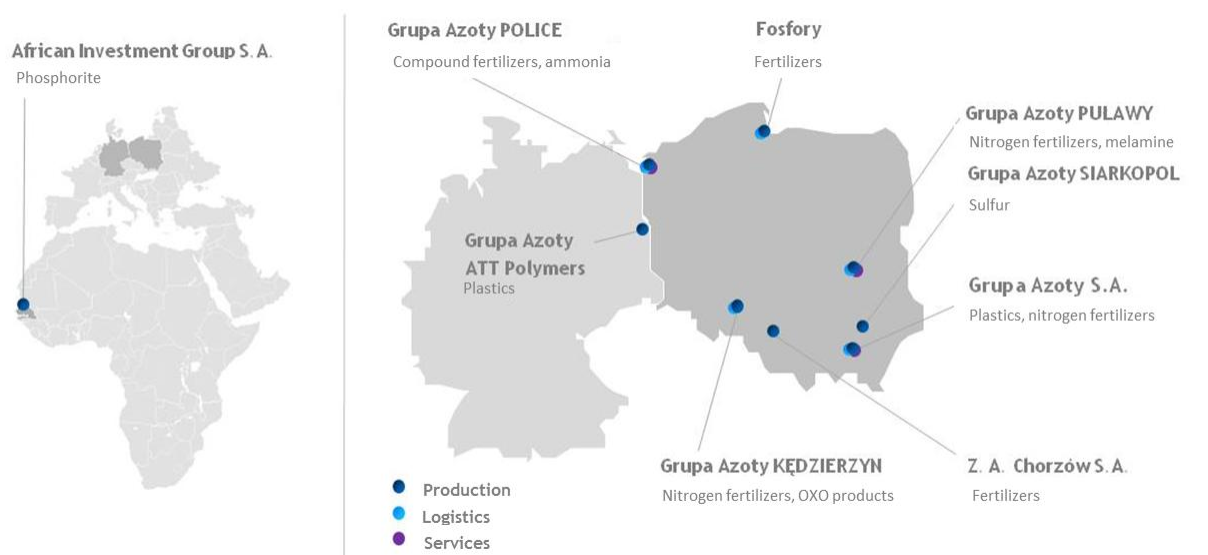
Description	Year	Length of service			
		up to 5 years	6-10 years	11-20 years	above 20 years
Number of employees	2015	1,667 11.9%	1,769 12.7%	2,581 18.5%	7,952 56.9%
Number of employees	2014	1,583 11.3%	1,908 13.6%	2,764 19.8%	7,725 55.3%

3. Business overview

3.1. General information on the Grupa Azoty Group

The Grupa Azoty Group is the largest chemical group in Poland and a significant player in Central Europe, offering mineral fertilizers and B2B products, including engineering plastics, OXO products and melamine.

Grupa Azoty Group – core business



Source: Company data.

The Group's business is divided into the following segments:

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

Agro Fertilizers

Mineral fertilizers are a particularly important area of the Group's business. The product range of the Agro Fertilizers segment includes nitrogen and compound fertilizers, as well as ammonia and other nitrogen-based intermediate products.

Products classified within this segment are manufactured by the companies in Tarnów (Parent), Puławy, Kędzierzyn, Police, Gdańsk, and Chorzów. Additionally, the Group is implementing a project to mine phosphorites (key component in the production of compound fertilizers) in its own mine in Senegal.

The Grupa Azoty Group is Poland's market leader and European Union's second largest manufacturer of mineral fertilizers.

Plastics

The segment's key products are engineering plastics (polyamide 6 (PA6) and modified plastics) and auxiliary products, such as caprolactam and other chemicals.

They are made by three companies – in Tarnów, Puławy, and Guben (Germany). The Grupa Azoty Group is the leading manufacturer of polyamide 6 in Poland and the sixth largest integrated producer in the European Union.

Chemicals

The Chemicals segment is an important area of the Group's operations, comprising OXO products (OXO alcohols, plasticisers), technical grade urea, melamine, sulfur and other.

They are manufactured in Kędzierzyn, Puławy, Police, and Grzybów. The Grupa Azoty Group is the third largest producer of melamine in the world and the second largest in the European Union. As regards OXO products, the Group is the sole manufacturer of OXO alcohols in Poland, ranking seventh in Europe, and is ranked first in Poland and fifth in Europe among manufacturers of plasticizers.

Energy

Power and heat produced by the Energy segment are sold locally, to customers in the immediate vicinity of the Group companies' plants.

Companies of the Grupa Azoty Group are the key customers of the Energy segment. Outside the Group, the segment's products are sold on the electricity and heating water market to local customers. Companies of the Grupa Azoty Group operate their own electricity and energy carrier distribution networks.

Other Activities

The Other Activities segment comprises services material to the operations of the Grupa Azoty Group. Like in the Energy segment, the main customers are the Group companies. Outside the Group, the segment provides maintenance services (automation, design, repair, etc.) and logistics services (road transport, rail transport, ports). The segment also includes various operations in the area of environmental protection, administration, research services, and management of infrastructure.

3.2. Overview of key products

AGRO FERTILIZERS

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

Nitrogen fertilizers

Nitrogen fertilizers are substances or mixtures of substances where nitrogen is the primary plant nutrient. The Group's product range includes a number of nitrogen fertilizers: urea, nitrate fertilizers (including ammonium nitrate, calcium ammonium nitrate, UAN), nitrogen-sulfur fertilizers (ammonium sulfate and other, made as a result of mixing fertilizers in technological process: ammonium sulfate nitrate, solid and liquid mixtures of urea and ammonium sulfate). Natural gas is the key feedstock in the production of nitrogen fertilizers.

Urea – a nitrogen fertilizer containing 46% nitrogen; it is produced in Puławy (PULREA®), in Police (mocznil.pl®) and in Kędzierzyn. Urea is a universal fertilizer - it can be used for all crops at various growth stages, both in granulated form and as a solution. Outside agriculture, urea is used for production of adhesive resins, which find application in the wood-based boards industry as well as in the pharmaceuticals and cosmetics industries. Urea may also be further processed into urea-ammonium nitrate solution (UAN – RSM®), which is a liquid fertilizer, or into melamine.

Nitrate fertilizers

- Ammonium nitrate is a nitrogen fertilizer which is easily dissolved in water, containing between 30% and 34% nitrogen. The Group offers a wide variety of this product in various granule forms and sizes, such as mechanically granulated ZAKsan®, with excellent sowing properties, the PULAN® beaded ammonium nitrate, and the “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. The Group markets CAN in a number of granule varieties; the offering includes the mechanically granulated Salmag® fertilizer range (including varieties with a sulfur or boron content), or bead fertilizers such as CAN 27 standard or CAN with boron.
- Urea-ammonium nitrate solution (UAN - RSM®) is a liquid nitrogen fertilizer coming in three varieties: with 32%, 30% and 28% nitrogen content. Thanks to its form, UAN-RSM® is easily absorbed by plants. It is also produced with an admixture of sulfur, as UAN-RSM®S.

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. The Grupa Azoty Group manufactures a wide range of ammonium sulfate in various granule forms and sizes: selection, macro, standard and crystalline.
- Saletrosan®, or ammonium sulphate nitrate, is a nitrogen fertilizer with sulfur, made as a result of mixing ammonium nitrate and ammonium sulfate, and containing 26% nitrogen and 13% sulfur.
- Polifoska® 21 is a nitrogen fertilizer with sulfur; it is an ammonium sulfate-urea mix, containing 21% nitrogen and 33% sulfur.
- PULASKA® is a liquid nitrogen fertilizer with sulfur; it is made as a result of mixing urea and ammonium sulfate, and has a 20% nitrogen and a 6% sulfur content.

Compound fertilizers (NPK, NP)

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

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

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

Ammonia – 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. Natural gas is the key feedstock in the production of ammonia.

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.

The Group 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). The Group also offers dedicated plastics with composition meeting the requirements of individual customers.

Polyamide 6 (PA6) is a high-quality engineering thermoplastic in granular form for injection processing. It is the leading product among engineering plastics. The Group's very popular brands in this segment are Tarnamid® and Alphalon®.

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.

CHEMICALS

OXO products

OXO alcohols

The Grupa Azoty Group manufactures the following OXO alcohols: 2-ethylhexanol (2EH), butanols (n-Butanol, isobutane). The key product in this product group is 2-EH.

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

Plasticizers

The Grupa Azoty Group manufactures three plasticizers: DEHT, DEHP, and DPHP. Plasticizers are used in the chemical industry as agents softening plastics, mainly PVC, and as an additive to paints and varnishes.

DEHT is the Group's key plasticizer.

DEHT is currently marketed as Oxoviflex™. It is used in the processing of plastics as a non-phthalate plasticizer, and in the paint and varnish industry. It also has a wide range of other applications, from the manufacture of floor and wall coverings to children's toys.

Sulfur

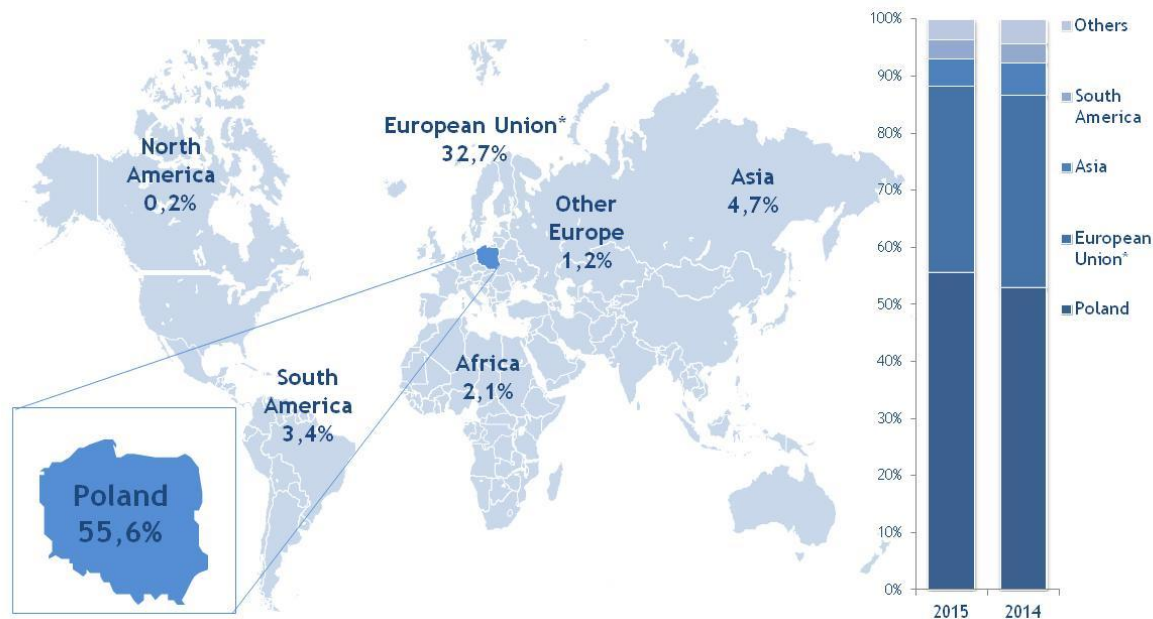
The product offered by the Grupa Azoty Group is mined sulfur. Sulfur is mainly used to produce sulfuric acid, which is widely used in the chemical industry, for instance in the manufacture of DAP (a two-component fertilizer). The product is sold in various forms.

Melamine

It is a non-toxic, non-flammable product in the form of a white powder, used for the production of synthetic resins, thermosetting plastics, adhesives, paints, varnishes (including furnace varnishes), auxiliary materials for the textile industry, fire retardants and other.

3.3. Sales markets and sources of strategic raw materials

Sales by geographies in 2015 (by revenue)



* Excluding Poland.
Source: Company data.

Sources of strategic raw materials

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

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

Natural gas

PGNiG S.A. supplied 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, the Grupa Azoty Group purchased 59.9% of its natural gas from PGNiG S.A. and the remaining 40.1% from other sources.

Potassium chloride

Given the substantial natural resources and competitive commercial terms, producers from Russia and Belarus are the primary suppliers of potassium salt. The Group's procurement strategy for this raw material is chiefly based on framework agreements with supplementary deliveries sourced from Western Europe. The Group pursues a centralised procurement strategy by making joint purchases for Grupa Azoty POLICE and GZNF Fosfory Sp. z o.o., which further reduces the costs.

Electricity

The Company and other Grupa Azoty Group companies purchase electricity from major Polish suppliers, i.e. PGE S.A., TAURON Polska Energia S.A. and ENEA S.A. Following a number of tenders for 2015, the Group companies executed electricity supply contracts as part of their existing framework agreements, 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 Group followed a policy of purchasing electricity under short-term contracts.

Coal

The Group purchases coal mainly 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.

Most of the Group companies purchase coal under short-term contracts with a price guarantee. Grupa Azoty PUŁAWY, given its coal quality requirements, purchases coal under a long term-contract with a negotiable price. The contracts satisfy most of the Group's needs for coal supplies.

Propylene

The bulk of the Group's purchases of propylene are made under annual contracts, with supplementary purchases made on the spot market. Propylene prices are driven to a large extent by oil prices. The Group pursues a diversified procurement strategy, based chiefly on supplies from EU and FSU countries (supplies from the latter largely reduce the cost of propylene procurement). As was the case with other petroleum products, in 2015 propylene prices declined significantly on key markets, especially in the second half of the year.

Phosphate rock

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

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. The Grupa Azoty Group secures supplies for its own needs under long-term contracts concluded directly with Europe's largest phenol producers.

Benzene

Benzene is mainly supplied under one-year contracts, with supplementary purchases made on the spot market (as part of the procurement strategy pursued jointly by the Parent and Grupa Azoty PUŁAWY). 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.

Sulfur

The Group 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 Group (Grupa Azoty SIARKOPOL) and on supplies of petrochemical sulfur. This approach gives the Group considerable flexibility in securing supplies, and significantly reduces the risk of supply limitations. Moreover, the Group has the largest logistics facilities in Poland, which gives it additional competitive advantage. With a centralised sulfur procurement strategy in place (a joint purchase programme for the entire Group enabling aggregation of supply volumes), the Group is able to significantly reduce the cost of this raw material.

Ammonia

The procurement strategy in this area is based primarily on the optimisation of intragroup ammonia supplies. Intragroup supplies are executed on an arm's length basis. The Grupa Azoty Group is Poland's and CEE's largest ammonia manufacturer, and operates several ammonia units. It is also one of the largest consumers of ammonia in the region.

Apart from satisfying its own requirements, the Group (chiefly Grupa Azoty POLICE and Grupa Azoty KĘDZIERZYN) sells surplus ammonia to external customers. Effectiveness of the procurement process largely depends on conditions prevailing on the fertilizer market and in the natural gas sector.

3.4. Significant agreements

The agreements are presented in chronological order.

Significant agreements

Revolving credit facility agreement

On April 23rd 2015, the Parent 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 Parent concluded credit facility agreements for long-term financing in a total amount of PLN 700m with the European Investment Bank of Luxembourg ("EIB") and with 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.

Business volumes with PGNiG S.A.

In the period from December 17th 2014 to August 18th 2015, the total value of transactions concluded between Grupa Azoty and the PGNiG Group reached PLN 1,146m (exclusive of VAT), thus exceeding 10% of Grupa Azoty's total revenue, which is the threshold for a significant reportable agreement.

The single agreement with the highest VAT-exclusive value in that period was an annex signed by Grupa Azoty PUŁAWY to the agreement for sale of high-methane gas, concluded with Polskie Górnictwo Naftowe i Gazownictwo S.A. on January 14th 1999 for an indefinite term, received by Grupa Azoty PUŁAWY on August 17th 2015 (see Grupa Azoty PUŁAWY's Current Report No. 27/2015, dated August 18th 2015).

Together with the annex, an appendix to the agreement was signed, entitled "Gas fuel volumes contracted for individual months of the contract year and contracted capacity", specifying the contracted capacity and quantity of gas fuel for the 2015/2016 gas year. The appendix replaced the previous arrangements concerning contracted volumes and capacity in the period October 1st-December 31st 2015, as specified in an appendix to the agreement concluded on December 17th 2014 (see Grupa Azoty PUŁAWY's Current Report No. 28/2014, dated December 17th 2014).

(for details, see Current Report No. 57/2015 of August 18th 2015).

Material agreements

The Group's material insurance agreements

- On February 4th 2015, the Parent 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. the Parent, 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 Parent 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 Parent. 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 Parent received the first (PLN 915 thousand) and the second tranche (PLN 255 thousand) 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.

3.5. Significant events

Construction of the PDH propylene production unit

At Grupa Azoty POLICE, a decision was made to launch a project to construct Europe's largest and most advanced PDH unit for propylene production, being the Grupa Azoty Group's largest project to date. The PLN 1.7bn CAPEX project will involve the construction of a propylene production unit, together with power generating units and a liquid chemicals handling terminal at the Police port facilities. Ultimately, the terminal will serve the largest LPG vessels in Poland, with its capacity expected to double. The project is scheduled for completion within the next four years, with its first effects on the financial performance to be seen in 2019. It is expected to ultimately add ca. PLN 2bn to the Group's revenue and hundreds of millions of zloty to its profit. Some 1,000 staff will work on the project construction site, and following its commercial launch the plant will give permanent employment to around 200 people.

On May 19th 2015, Grupa Azoty POLICE, Polskie Inwestycje Rozwojowe S.A. (PIR) and Grupa Azoty KĘDZIERZYN entered into a cooperation agreement, where the parties expressed their intent to collaborate on the feasibility assessment of joint implementation of a project: PDH propylene production unit and related infrastructure.

Negotiations of a detailed cooperation agreement will commence after PIR or Grupa Azoty KĘDZIERZYN obtain a positive preliminary investment decision and after the terms and conditions of the decision are provisionally accepted by Grupa Azoty POLICE.

Fertilizer granulation plant project at the Parent

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 a new polyamide 6 plant at the Parent

On September 21st 2015, the commencement act for a new polyamide 6 (PA6) unit 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 the Grupa Azoty Group and PKO BP S.A.

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

Launch of the national soil testing programme

"Grounded in knowledge" is the title of a three-year research programme carried out nationwide by the Grupa Azoty Group and its partner PKO Bank Polski, to measure pH and nutrient content of soils in Poland. Under the programme, the companies plan to reach almost 2,000 farms across Poland and have 28 thousand soil samples tested by Regional Agrochemical Stations.

Execution of agreements for the financing of the Grupa Azoty Group'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.

Placement in service of a non-phthalic plasticizer unit

On April 29th 2015, Grupa Azoty KĘDZIERZYN placed in service a new non-phthalic plasticizer unit and expanded its product mix with Oxoviflex™, the first Polish non-phthalic plasticizer. The new product is a response to the growing demand for innovative solutions for the PVC processing market. Thanks to the most advanced plasticizer unit in this part of Europe, Grupa Azoty KĘDZIERZYN will be able to produce 50,000 tonnes of Oxoviflex™ per year.

Oxoviflex™ gained recognition from the Polish Agency for Enterprise Development, which named it the Polish Product of the Future.

Placement in service of a new fertilizer complex in Puławy

On October 15th, Grupa Azoty PUŁAWY officially launched a unit for the production of PULGRAN® / PULGRAN®S fertilizers, the final project under the new fertilizer complex programme worth over PLN 450m in total.

The new fertilizer complex is the largest project implemented by Grupa Azoty PUŁAWY in recent years and one of Europe's most advanced solid fertilizer production units. The first phase of the complex was ready in 2013. The units placed in service that year included Europe's first and the world's third ammonia-based wet flue gas desulfurization unit, a unit for the production of liquid fertilizers with sulfur content, and a logistics centre for granulated fertilizers.

With the new units, the company will be able to extend its product chain in the fertilizers business and strengthen its lead in the market for urea fertilizers. The project budget totalled PLN 137.5m. The production plant built under the project includes a PULGRAN®/PULGRAN®S pastillation unit.

Grupa Azoty KĘDZIERZYN's product mix expanded to include liquid fertilizers

On November 25th 2015, a UAN fertilizer unit together with logistics facilities and a modernised fertilizer storage facility were officially placed in service at Grupa Azoty KĘDZIERZYN.

The new unit's annual capacity will reach 100 thousand tonnes. UAN is a highly concentrated nitrogen fertilizer in the form of a water solution of urea and ammonium nitrate, which is in great demand on the market. The solution comes in three varieties (with 28%, 30% and 32% nitrogen content), tailored to various temperatures for transportation and storing. The logistics facilities are an important element of the completed project, bringing the company into the Group's liquid fertilizer distribution network. Integration of UAN sales from the Kędzierzyn-Koźle and Puławy plants will allow the Group to maximise synergies.

Grupa Azoty in FTSE Emerging Markets

On March 4th 2015, the Parent was selected to feature in the prestigious FTSE Emerging Markets index. The Parent 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.

Establishment of the Rescue Education Centre

On March 12th 2015, the Grupa Azoty Rescue Education Centre (CERGA) launched its operations. CERGA is a modern unit responsible for cyclic and specialist training of firefighters and chemical rescuers working for the Grupa Azoty Group. Its operations cover the Parent, Grupa Azoty PUŁAWY, Grupa Azoty POLICE, Grupa Azoty KĘDZIERZYN, Grupa Azoty SIARKOPOL, and other entities interested in the educational offering. The idea behind the establishment of CERGA has been to support the development of common fire protection and rescue standards, share experience and exploit synergies across the Grupa Azoty Group.

Accession to Chatham House, the Royal Institute of International Affairs

In September 2015, Grupa Azoty became member of Chatham House, the Royal Institute of International Affairs based in London, which networks over 300 companies representing the financial, industrial, health, power, telecommunications and commercial sectors, as well as major embassies, international organisations and universities. Grupa Azoty is its first partner from Central and Eastern Europe.

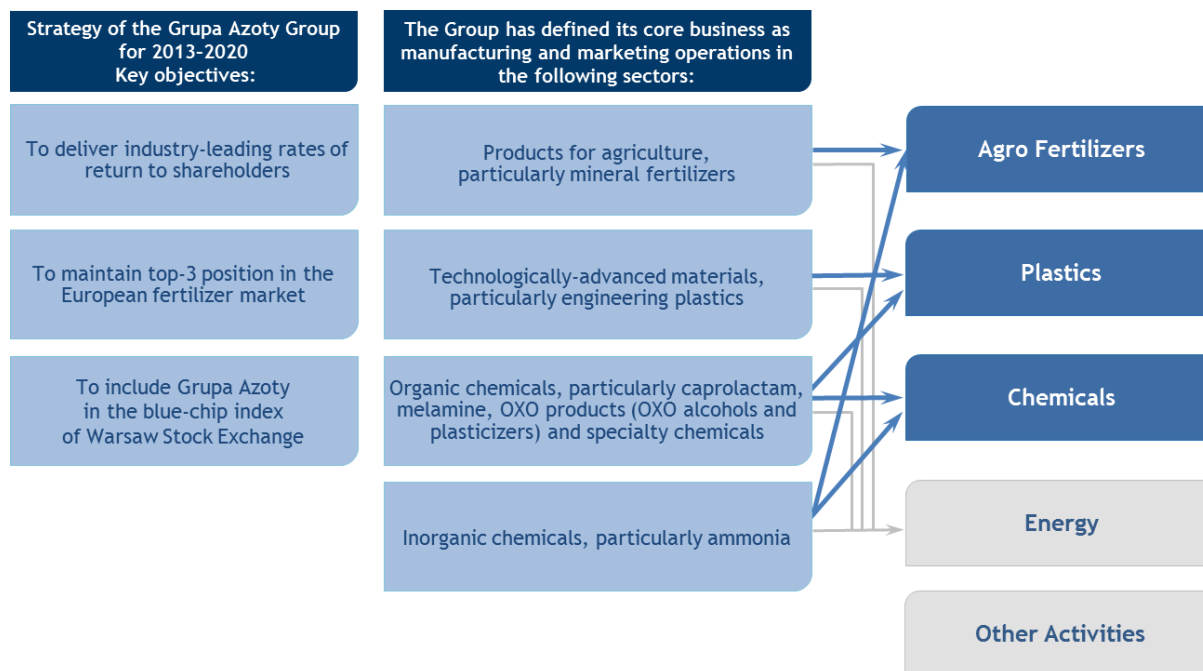
4. Growth strategy and policy

4.1. Strategy and growth directions

Future growth directions for the Group are identified in the Grupa Azoty Group Strategy for 2013–2020, which sets out a vision of how the Group wants to grow its business and create value in the years ahead, as well as in the Operationalisation of the Strategy for 2014–2020.

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.

Growth targets until 2020



Source: Company data.

By 2020, the Grupa Azoty Group will have five value-creating business segments (Agro Fertilizers, Plastics, Chemicals) 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 Strategy will be implemented in the following three strategic areas:

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

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 strategic objectives of the Grupa Azoty Group in key segments and product categories:

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.

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

The Company intends to increase its manufacturing capacity 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, polyamides and modified plastics will remain the key elements of the Group's engineering plastics portfolio. The Group continues to increase the scale of production of polyamides and will fully balance the production capacities for caprolactam and polyamides. There are also plans to increase the scale of polyamide composite production.

Chemicals

OXO products

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

Melamine

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

New areas

Construction of a propane dehydrogenation (PDH) unit is planned to be completed by 2019 in Police. Once placed in service, the new unit will strengthen Grupa Azoty Group's position as a producer of oxo alcohols and plasticizers, securing supplies of propylene for the Kędzierzyn plant, with the balance to be exported, positioning the Group as an important producer of propylene in Europe.

Energy

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

In Kędzierzyn-Koźle, there is a plan to restore the plant's electricity and heat generation capacity, increase its output to satisfy demand for electricity and heat, and implement solutions that ensure compliance with the growing environmental requirements. Completion of the first stage of construction of a new CHP plant at Grupa Azoty KĘDZIERZYN is scheduled for 2016.

In Puławy, work continues on the construction of a new power plant. Any electricity output in excess of Grupa Azoty PUŁAWY's requirements will be sold to external customers. Independently of the new power plant project, a programme has been under way to perform the necessary upgrades of the existing in-house power installations.

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

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

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

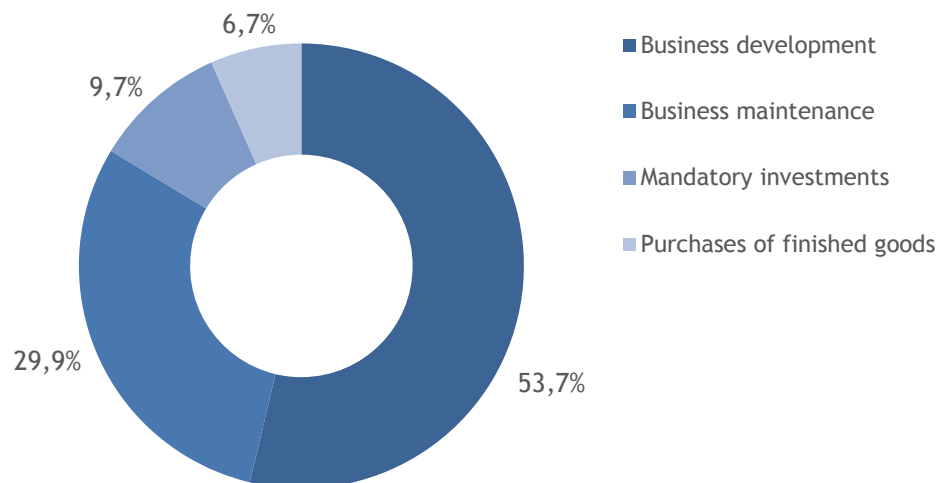
4.3. Key investments in Poland and abroad

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

Structure of capital expenditure:

- | | |
|------------------------------|-----------------------|
| • Business development | PLN 487,228 thousand, |
| • Business maintenance | PLN 271,289 thousand, |
| • Mandatory investments | PLN 88,165 thousand, |
| • Purchase of finished goods | PLN 60,108 thousand, |

Structure of capital expenditure in 2015



Source: Company data.

Capital expenditure at the Grupa Azoty Group in 2015:

- Parent PLN 256,756 thousand,
- Grupa Azoty KĘDZIERZYN Group PLN 263,309 thousand,
- Grupa Azoty POLICE Group PLN 212,066 thousand,
- Grupa Azoty PUŁAWY Group PLN 153,773 thousand,
- Grupa Azoty SIARKOPOL PLN 8,278 thousand,
- Grupa Azoty PKCh Sp. z o.o. PLN 7,886 thousand,
- Grupa Azoty KOLTAR Sp. z o.o. PLN 3,076 thousand,
- Grupa Azoty ATT Polymers GmbH PLN 1,646 thousand

Key investment projects implemented by the Grupa Azoty Group - Parent

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

Project name	Project budget	Expenditure incurred	Expenditure incurred in 2015	Project description	Scheduled completion date
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
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

Key investment projects implemented by the Grupa Azoty Group - Grupa Azoty KĘDZIERZYN

Project name	Project budget	Expenditure incurred	Expenditure incurred in 2015	Project description	Scheduled completion date
New CHP Plant at Grupa Azoty KĘDZIERZYN – Phase 1	375,059	199,651	134,102	To restore the plant's electricity and heat generation capacity, increase its output to satisfy demand for electricity and heat, and implement solutions that ensure compliance with the growing environmental requirements	2016
Launch of continuous production of OXOVIFLEX™	42,300	42,031	11,448	To construct and launch an OT terephthalate unit with an annual capacity of 50 thousand tonnes	Completed and placed in service
Logistics base for UAN-type liquid fertilizers with added modifiers	20,800	15,301	15,247	To store and maintain quality parameters of UAN-type liquid fertilizers, as well as the distribution of the fertilizers stored	Completed
Upgrade of the urea unit	23,181	2,028	1,056	To reduce the unit's environmental impact, obtain additional production capacity and increase process efficiency	2016
Replacement of the interior of the ammonia synthesis reactor	18,500	16,148	12,160	To increase ammonia production capacity, reduce pressure at the synthesis loop and mitigate the risk of failures	Completed and placed in service
Alteration of the roof of the fertilizer storage facility	22,080	21,437	20,972	To alter the roof of the bulk fertilizer storage facility to protect fertilizers against adverse weather conditions and to improve health and safety at work	Completed and placed in service

Key investment projects implemented by the Grupa Azoty Group - Grupa Azoty POLICE

Project name	Project budget	Expenditure incurred	Expenditure incurred in 2015	Project description	Scheduled completion date
Propane Dehydrogenation (PDH) unit and related infrastructure	1,675,000	32,606	32,606	To construct a Propane Dehydrogenation (PDH) unit with a planned annual output of at least 400,000 tonnes of propylene; in addition to the PDH unit, a power generating unit will be constructed and a chemicals terminal will be built at the Police port facilities	2019
Exhaust gas treatment unit and upgrade of the EC II CHP plant	163,700	134,635	25,026	To bring the operation of the CHP plant's units in line with the requirements of Directive 2010/75/EU	2016
Upgrade of the ammonia unit	155,600	67,574	61,345	To reduce energy consumption of the ammonia production process and to improve the operational reliability of individual process nodes	2016
Change of the phosphoric acid production method	67,000	2,719	2,719	To raise the efficiency of phosphoric acid production and improve the acid's quality by reducing impurities and waste generation	2017

Key investment projects implemented by the Grupa Azoty Group - Grupa Azoty PUŁAWY

Project name	Project budget	Expenditure incurred	Expenditure incurred in 2015	Project description	Scheduled completion date
Production of solid fertilizers based on urea and ammonium sulfate	137,500	134,495	36,102	To enable the production and sale of new solid fertilizers PULGRAN / PULGRAN S (160,000 tonnes per year) and to construct a new logistics and distribution complex	Completed and placed in service
Facility for production of granulated fertilizers based on ammonium nitrate	385,000	8,906	8,906	To improve the quality of fertilizers by applying modern mechanical granulation	2020
Construction of the Puławy Power Plant	1,125,000	4,633	4,633	The key function of the power plant (CCGT unit) will be high-efficiency cogeneration of heat to be used for technological/heating purposes and electricity	2019
Upgrade of the existing nitric acid unit and construction of new units for nitric acid, neutralisation and production of new fertilizers based on nitric acid	695,000	62	62	To raise the efficiency of nitric acid production and to improve the economics of production of nitric acid-based fertilizers	2021
Replacement of the TG-2 turbine generator set	99,000	321	64	To increase the efficiency of electricity and heat cogeneration by replacing the TG-2 30 MWe pass-out and condensing turbine with a new turbine with a rated input of 37 MWe as part of the power system upgrade	2017
1,900 Nm ³ hydrogen compressor	12,500	10,861	10,826	To improve operational stability of the units, bring down the failure rate and reduce hydrogen consumption rates	2016
NOx reduction units at two boilers at the CHP plant	16,000	12,044	1,538	Air protection	Completed

Key investment projects implemented by the Grupa Azoty Group - Grupa Azoty SIARKOPOL

Project name	Project budget	Expenditure incurred	Expenditure incurred in 2015	Project description	Scheduled completion date
Construction of sulfur pastillation unit	25,000	21,156	4,369	To manufacture a new product - dewatered sulfur pastilles	Completed and placed in service
Purchase of land plots for production in the areas 7R, S-1, S-2, S-3, Jezioro Osieckie lake	17,500	1,785	1,374	To ensure access to new areas of the deposit	2018
Upgrade of the insoluble sulfur unit SN II	19,000	258	258	To achieve the unit's design production capacity of 5,000 tonnes pa	2016

4.4. Equity investments

Share capital increase at AGROCHEM Sp. z o.o.

The Extraordinary General Meeting of the company held on January 22nd 2015 passed a resolution to increase the company's share capital by PLN 19,500 thousand, to PLN 20,000 thousand, through an issue of 39,000 new shares with a par value of PLN 500 per share; the new shares to be paid for with cash. All new shares were subscribed for by the company's sole shareholder, Grupa Azoty PUŁAWY, and paid for in full with cash. These changes were registered with the National Court Register on June 29th 2015.

Share capital increase at MEDICAL Sp. z o.o.

The Extraordinary General Meeting of the company held on January 30th 2015 passed a resolution to increase the company's share capital by PLN 844 thousand, to PLN 1,917.7 thousand. The new shares will be paid for with a non-cash contribution in the form of the ownership title to a unit and an interest in the common part of property and in the perpetual usufruct right to the plot on which the property is situated. The increased portion of the company's share capital was subscribed for by Grupa Azoty PUŁAWY. These changes were registered with the National Court Register on April 13th 2015.

Share capital increase at Zakłady Azotowe Chorzów S.A.

On April 23rd 2015, the Annual General Meeting of the company passed a resolution to increase the company's share capital by PLN 28,700 thousand, to PLN 58,700 thousand. Series B shares with a total par value of PLN 28,700 thousand were subscribed and paid for in full with cash by Grupa Azoty PUŁAWY. These changes were registered with the National Court Register on June 19th 2015.

Share capital increase at GZNF Fosfory Sp. z o.o.

The Extraordinary General Meeting of GZNF Fosfory Sp. z o.o. of Gdańsk held on January 28th 2015 passed a resolution to increase the company's share capital by PLN 30,000 thousand, to PLN 59,003.4 thousand.

Grupa Azoty PUŁAWY subscribed for shares with a total par value of PLN 29,529 thousand and paid for them in cash, and subsequently, on October 28th 2015, subscribed for shares with a total par value of PLN 471 thousand and paid for them in cash. These changes were registered with the National Court Register on December 1st 2015.

Establishment of PDH Polska Spółka Akcyjna

On September 10th 2015, a company under the name of PDH Polska Spółka Akcyjna of Police was established; the company's entire share capital of PLN 60,000 thousand was subscribed for by Grupa Azoty POLICE.

The company was established in connection with the project to construct a PDH propylene production unit with related infrastructure. On September 24th 2015, PDH Polska Spółka Akcyjna was entered in the Register of Entrepreneurs of the National Court Register.

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, the Parent subscribed for shares with a total par value of PLN 5,495 thousand and paid for them in cash.

Share capital increase at Elektrownia Puławy Sp. z o.o.

The Extraordinary General Meeting of the company, held on November 17th 2015, passed a resolution to increase the company's share capital by PLN 70,000 thousand, from PLN 22,148 thousand to PLN 92,148 thousand, by issuing 70,000 new shares with a par value of PLN 1 thousand per share. All new shares were subscribed for by the company's sole shareholder, Grupa Azoty PUŁAWY, and paid for in full with cash.

These changes were registered with the National Court Register on December 21st 2015.

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 Parent 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 Parent 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 Parent 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

The Group's total 2015 capital expenditure reached PLN 906,790 thousand and was financed with internally generated funds and the above-mentioned credit facility package (subject to redistribution among Group companies), as well as loans from the National Fund for Environmental Protection and Water Management (NFOŚiGW) and the Provincial Fund for Environmental Protection and Water Management (WFOŚiGW) and, to a limited extent, with leases and grants.

Under its centralised Financing Model, the Group 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 Group 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 Group 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.

The Group also had access to PLN 24m available under investment loans from the National Fund for Environmental Protection and Water Management (NFOŚiGW) and the Provincial Fund for Environmental Protection and Water Management (WFOŚiGW).

Furthermore, the Group 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 Group can further increase its external funding without the risk of breaching covenants under the above-mentioned credit facility package, or secure separate financing for investment projects implemented by SPVs on a project finance basis.

4.6. Significant R&D achievements

Parent

In keeping with the R&D strategy adopted by the Group, 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 Parent 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.

Grupa Azoty KĘDZIERZYN

In 2015, R&D activities at Grupa Azoty KĘDZIERZYN focused on:

- Identifying new products to expand the Company's product portfolio,
- Implementing technical and technological upgrades to reduce energy intensity of the manufacturing processes for key intermediate products.

The most important R&D initiatives included:

- In the OXOPLAST Business Unit: R&D initiatives focused on new types of non-phthalate plasticizers and potential non-alcohol products of butyraldehyde processing (intermediate product of oxo synthesis). Grupa Azoty KĘDZIERZYN completed the start-up of a new unit for continuous production of Oxoviflex®, with an annual capacity of 50 thousand tonnes. It also continued research activities geared towards expanding the offering of non-phthalate plasticizers, including bio-based plasticizers.
- In the area of fertilizer production: continued work on new compound fertilizers. A new UAN liquid fertilizer plant with an annual capacity of 100 thousand tonnes was launched. Work is also in progress on new fertilizer formulas, including fertilizers with higher magnesium content.
- At the same time, the company worked on solutions aimed at reducing energy consumption in the manufacturing of key intermediate products (primarily ammonia). Ammonia synthesis unit was upgraded through the replacement of the converter's interior, thereby reducing pressure of the synthesis process. Work is underway to increase output of the TKV nitric acid production

unit. The technological upgrades are also expected to improve technological reliability of manufacturing processes for key intermediate products used in fertilizer production.

Grupa Azoty POLICE

At Grupa Azoty POLICE, R&D projects are both driven by the company's internal needs and forced by the market reality.

In 2015, R&D work undertaken by Grupa Azoty POLICE focused primarily on:

- Conducting laboratory research and quarter-technical analyses,
- Preparing feasibility studies, expert reports and analyses.

These activities were conducted in partnership with third-party institutions in Poland and abroad. In addition to launching new research initiatives, in 2015 the company continued its projects commenced in 2014. The following is a list of major completed R&D projects at Grupa Azoty POLICE:

- Feasibility study on the upgrade of the post-hydrolytic sulfuric acid concentration unit,
- Research into the possibility of recovering phosphorous from the phosphogypsum landfill site leachate,
- Research into the possible improvement of quality of phosphoric acid,
- Analysis of the environmental assessment of fertilizers' lifespan,
- Research into a new liquid fertilizer to be produced based on urea and ammonia sulfate derived from post-crystallization acid, and assessment of its marketability,
- Research into the possible application of a new type of titanium white to be used in plastics,
- Analysis of the possibility of producing NO_x solution directly from urea solution discharged from the synthesis unit.

Grupa Azoty PUŁAWY

In 2015, key R&D initiatives undertaken at Grupa Azoty PUŁAWY focused on:

- Developing new and enhancing existing technologies,
- Improving the company's products.

To a large extent, R&D work involved the continuation or extension of the initiatives commenced in previous reporting periods.

Key R&D projects included:

- Further elaboration of the concept for implementation of a process for mechanical granulation of ammonium nitrate fertilizers,
- Research into an NO_x emissions reduction technology involving the use of urea solution, and analysis of the feasibility of its application,
- Development and implementation of a treatment procedure for biological wastewater treatment plant's sludge with a view to meeting future legal requirements in this respect;
- Development of a synthesis technology for biodegradable plastics based on semi-finished and finished products manufactured at Grupa Azoty PUŁAWY and its subsidiaries,
- Feasibility studies and design work to improve efficiency of key manufacturing processes.

Research into optimisation of efficiency of the existing and contemplated fertilizer products of Grupa Azoty PUŁAWY.

In 2015, the company commenced implementation of the project "Support for low-emission agriculture able to adapt to climate change now and within the 2030 and 2050 timeframes (LCAgri)", co-financed by the National Centre for Research and Development, which aims at improving efficient resource utilisation by implementing innovative low-carbon agricultural solutions and promoting sustainable application of mineral fertilizers at Polish farms throughout the fertilizer products lifespan, based on the LCA method.

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

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

4.7. Protection of industrial property rights

Grupa Azoty S.A.

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.

Furthermore:

- 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.

Grupa Azoty PUŁAWY

In 2015, Grupa Azoty PUŁAWY secured one patent for the invention "Method for decomposition of cyclohexyl hydroperoxides".

On August 17th 2015, in connection with the implementation of the agreement of May 26th 2013 signed for the purpose of executing the project "Optimisation of drilling waste management methods", Grupa Azoty PUŁAWY entered into the following agreements:

- Agreement for joint patent rights to the invention "Method for reclamation of drilling waste landfill site",
- Agreement for joint patent rights to the invention "Method for production of a soil quality enhancement agent",

Furthermore:

- 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 November 5th 2015, the company and Grupa Azoty KĘDZIERZYN signed a trademark licence agreement related to the use of the RSM® (UAN) trademark owned by Grupa Azoty PUŁAWY,
- 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,
- On December 22nd 2015, the company and Elektrownia Puławy Sp. z o.o. signed a license agreement for the use of the Grupa Azoty PUŁAWY trademark and logo.

5. Current financial position of the Group

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

Recognition of impairment losses

On January 15th 2016, the Parent'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.

Impairment loss at Grupa Azoty PUŁAWY's subsidiary - Zakłady Azotowe Chorzów S.A.

On February 8th 2016, the Management Board of Zakłady Azotowe Chorzów S.A., a subsidiary of Grupa Azoty PUŁAWY, passed a resolution under which an impairment loss was recognised in the company's accounting books as at December 31st 2015, relating to the fat processing plant. In accordance with the provisions of IAS 36, the Management Board of Zakłady Azotowe Chorzów S.A. identified indications that the recoverable amount of the plant's assets may have decreased below their respective carrying amounts. The indications related to insufficient utilisation of the fat processing plant's capacity and significant deterioration of market conditions, as well as falling prices of the key product (stearin) combined with rising prices of the key feedstock (animal fat), which affected the company's ability to generate positive cash flows from sales of stearin and other oleochemicals.

Having considered these indications, the Management Board of Zakłady Azotowe Chorzów S.A. tested property, plant and equipment and intangible assets for impairment. The test confirmed the validity of recognising an impairment loss of PLN 18.4m.

The effect of the impairment recognition on the consolidated performance of Grupa Azoty PUŁAWY and, at the same time, on the consolidated financial statements of the Grupa Azoty Group, is as follows:

- effect on EBIT: PLN 18.4m,
- effect on net profit: PLN 14.9m.

Impairment loss at subsidiary Grupa Azoty SIARKOPOL

On March 1st 2016, the Parent's subsidiary Grupa Azoty SIARKOPOL passed a resolution under which an impairment loss on property, plant and equipment of PLN 13.2m was recognised in the company's accounting books.

Under the resolution, a one-off item was disclosed in Grupa Azoty SIARKOPOL's books, affecting its separate results. The one-off item was an impairment loss on property, plant and equipment comprising a carbon disulfide production unit, a sodium sulfide production unit, tank cars and carbon disulfide shipping containers, for a total amount of PLN 13.2m.

In accordance with the provisions of IAS 36, the Management Board of Grupa Azoty SIARKOPOL identified indications that the recoverable amount of those assets may have decreased below their respective carrying amounts, which were related to the fact that production of carbon disulfide had been discontinued given the market conditions and inability to generate positive cash flows from sales of products. The recoverable amount was determined as the realisable selling price less costs to sell. It is expected that proceeds from the scrapping and disposal of the assets will cover their dismantling costs.

The effect of the impairment recognition on the consolidated performance of the Grupa Azoty Group is as follows:

- effect on EBIT: PLN 13.2m,
- effect on net profit: PLN 10.7m.

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 Group's performance in 2015.

The Group 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 Group 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, in a hedge horizon of up to 12 months from the hedge contract date, in accordance with the guidance issued by the Grupa Azoty Group's Risk Committee.

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

The Grupa Azoty Group made a PLN 1,924 thousand gain on hedging transactions realised in 2015, and posted a PLN 1,490 thousand gain on revaluation of hedges.

On non-hedged currency exposure, the Group reported a PLN 17,866 thousand foreign exchange gain, and a PLN (12,798) thousand deficit in foreign-currency income vs. expenses.

In total, in the twelve months of 2015, the Group'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 8,481 thousand (including PLN 19,790 thousand on realised foreign exchange differences and currency hedging transactions and PLN (11,309) thousand on unrealised items).

The Group also reported a PLN 2,266 thousand gain on valuation and settlement of forward and futures 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.

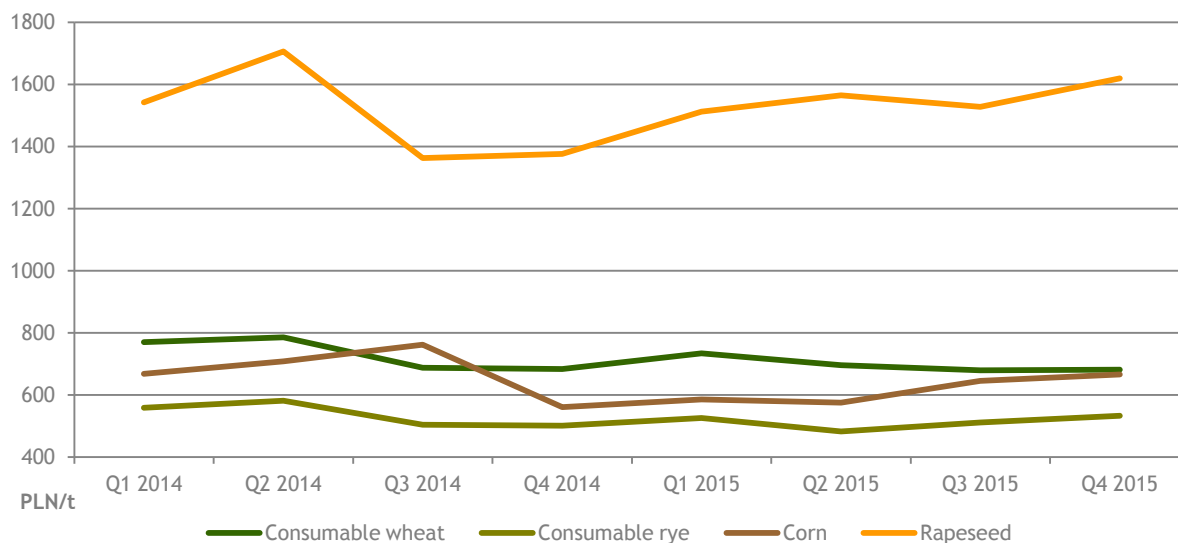
AGRO FERTILIZERS

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 %	12-2015 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

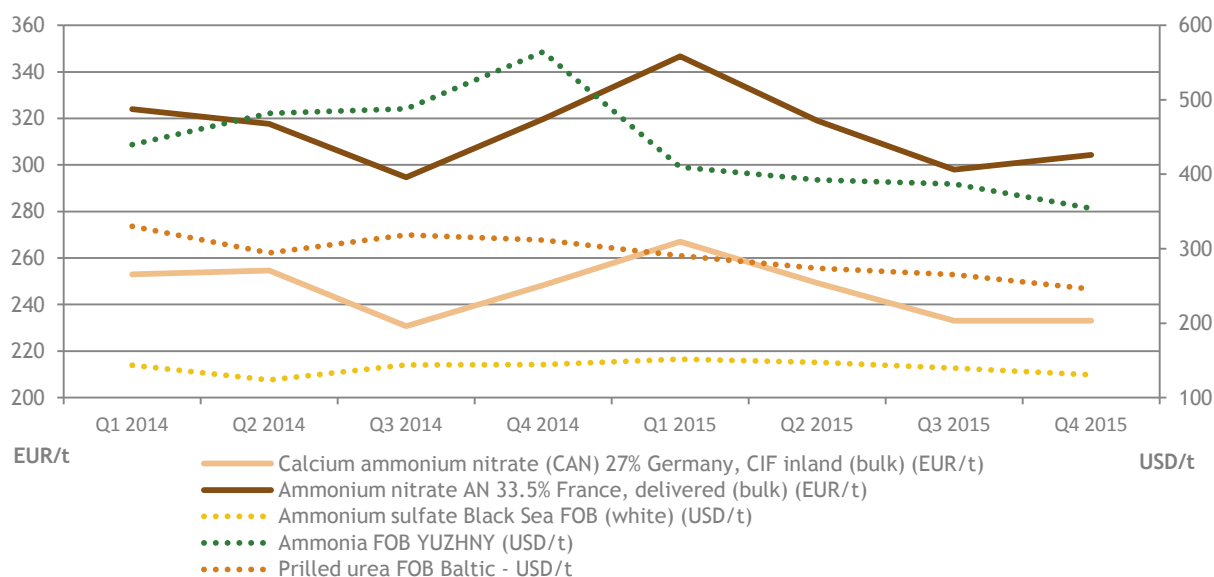
Nitrogen fertilizers

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 %	12-2015 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.

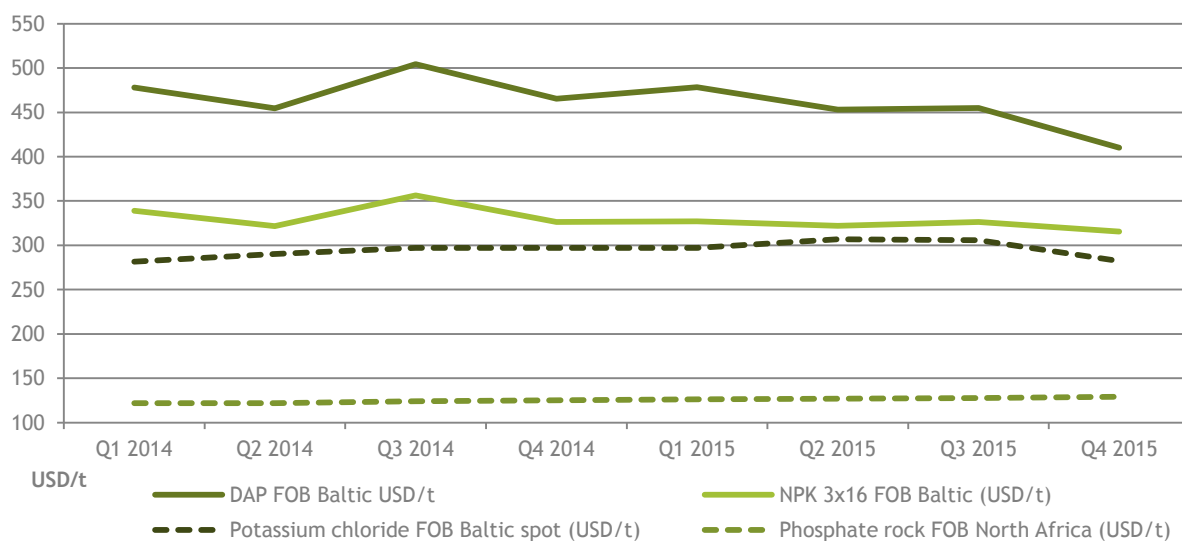
The consequences of this phenomenon may be mitigated by forecast low prices of production feedstock, including mainly natural gas (its price is forecast to drop further in 2016 to EUR 15 per 1 MWh), enabling producers to maintain their margins.

Market of compound fertilizers

In Western Europe, besides short seasonal increases in purchase volumes, sales of compound fertilizers (NPK) remained lower than in 2014. The prices of NPK fertilizers were relatively stable, though the price of standard 3x16 NPK fertilizer fell by about 5%. In the second half of the year, uncertainty as to the crop volumes and quality, and in particular the pressure on prices of grains and their high stocks resulted in limited purchases of NPK fertilizers by European farmers.

Global prices of DAP, a two-component fertilizer, remained under continuous pressure, mainly due to weak demand. In the course of the year, DAP prices went down by about 20%. Low prices of grains, currency depreciations, financial problems experienced by the largest importers, and adverse weather conditions contributed to limited purchases of this fertilizer in a number of markets.

Prices of compound fertilizers (NPK, DAP), potassium chloride and phosphate rock



Source: WFM, FERTECON, Profercy.

In 2015, prices of phosphate rock and potassium chloride rose slightly: by more than 3% and more than 2% year on year, respectively. Low prices of agricultural produce and lower incomes made farmers look for savings and purchase imported NPK fertilizers, at prices lower by PLN 50-100 per tonne than those quoted by domestic producers. However, in 2015 imports of NPK fertilizers shrank by about 25% compared with 2014.

Source: WFM, FERTECON, Profercy.	Average 2014 USD/t	Average 2015 USD/t	yoy %	12-2015 USD/t	MIN 2015 USD/t	MAX 2015 USD/t
DAP (FOB Baltic)	476	449	-5.6 ↓	383	383	485
NPK3x16 (FOB Baltic)	336	323	-3.9 ↓	312	312	329
Potassium chloride (FOB Baltic spot)	292	298	2.2	270	270	312
Phosphate rock (FOB North Africa)	123	128	3.4	129	125	129

According to forecasts for 2016, in the first half of the year prices of compound fertilizers will remain low, and a change in this trend is not to be expected until the second half of the year. Any potential price growth will depend primarily on the quantity and quality of the crops, and on general macroeconomic factors, including export possibilities. Analysts expect that in 2016 total domestic demand for compound fertilizers will shrink.

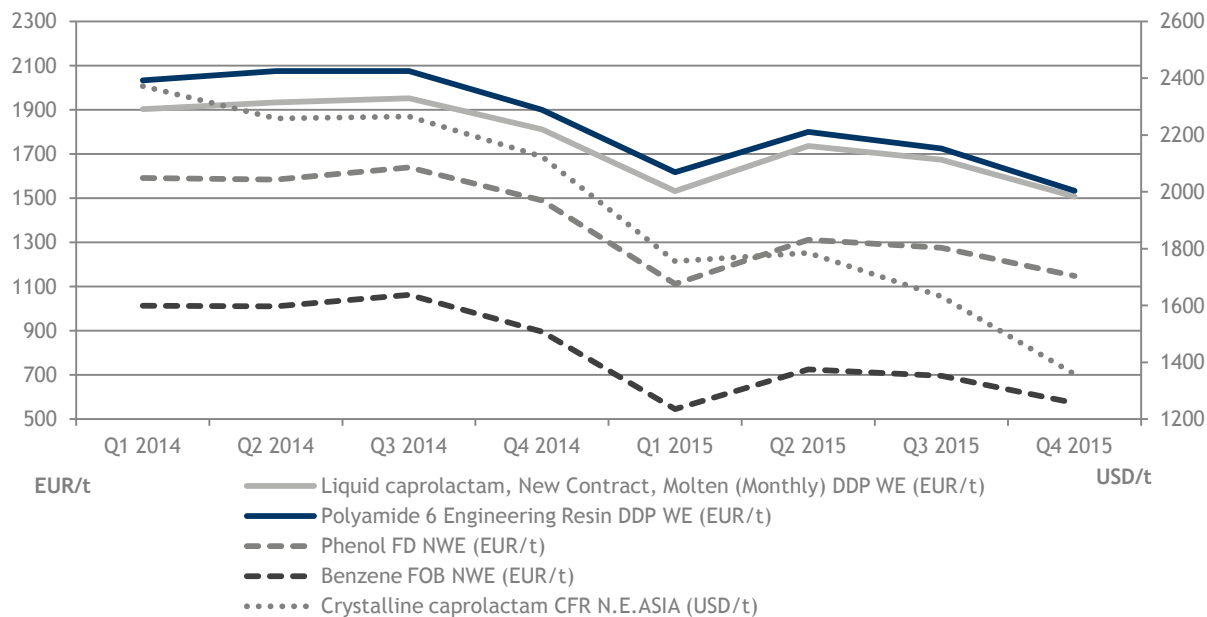
Prices of phosphate rock are likely to drop, due to declining prices of phosphate fertilizers.

PLASTICS

Prices of PA6, caprolactam, benzene and phenol

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-term 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 %	12-2015 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 and flaked caprolactam fell by 15% and nearly 28% (CFR, NE Asia), respectively, 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

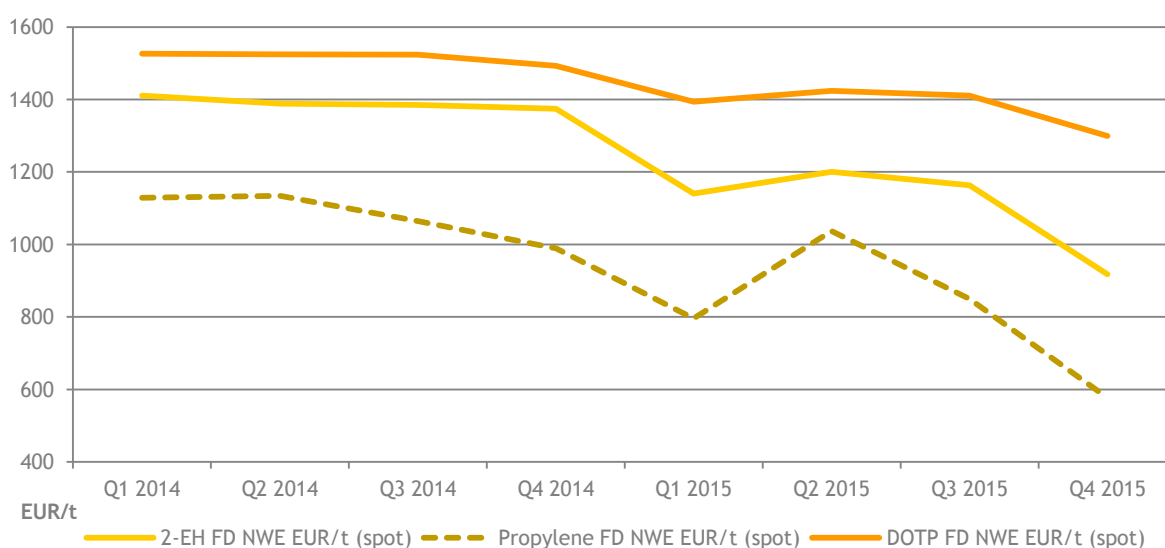
pave the way to PA6 consumption growth in 2016. The PA6 market should be expected to expand in the long term, given the considerable potential with respect to extension of the product chain towards increasingly more technologically advanced products.

CHEMICALS

OXO product chain

The market situation for the whole OXO product chain was strongly affected by prices of crude oil. The prices of OXO alcohols and plasticizers went down driven by a downward trend in propylene prices, which was directly caused by a 46% year-on-year decline in the price of crude. Stabilisation of crude prices is necessary to improve the situation and restore market equilibrium for the entire OXO product chain.

Prices of 2-EH, DOTP and propylene



Source: ICIS.

Source: ICIS.	Average 2014 EUR/t	Average 2015 EUR/t	yoy %	12-2015 EUR/t	MIN 2015 EUR/t	MAX 2015 EUR/t
2-EH (FD NWE spot)	1,390	1,105	-20.5 ↓	888	888	1,261
DOTP (FD NWE spot)	1,517	1,382	-8.9 ↓	1,288	1,288	1,439
Propylene (FD NWE spot)	1,079	815	-24.5 ↓	614	542	1,075

Propylene prices were driven predominantly by the slump in crude oil prices but also, especially in the second half of 2015, by an oversupply of propylene related to maximised output of ethylene. As a result, year-on-year spot prices of propylene fell by approximately 25%.

The price of the key 2-EH alcohol reflected a downward trend in propylene prices and fell more than 20% year on year. Given considerable propylene price fluctuations, customers purchasing alcohols pursued a very conservative procurement policy focused on satisfying their current production needs. The prices of key plasticizer – DOTP fell almost 9% year on year, partly on the back of lower crude oil prices and procurement policies designed to limit stocks.

Generally, both OXO alcohols and plasticizers were in oversupply on the European market. In particular, Southern and Western European markets were affected by imports from Russia, Turkey and Asia. Producers struggled against strong competition as some European manufacturers, finding it increasingly difficult to sell their output in China, chose to seek alternative markets. Additionally, capacity constraints experienced in 2015 by PVC producers due to force majeure events, largely contributed to lower consumption of OXO alcohols and plasticizers used in PVC production.

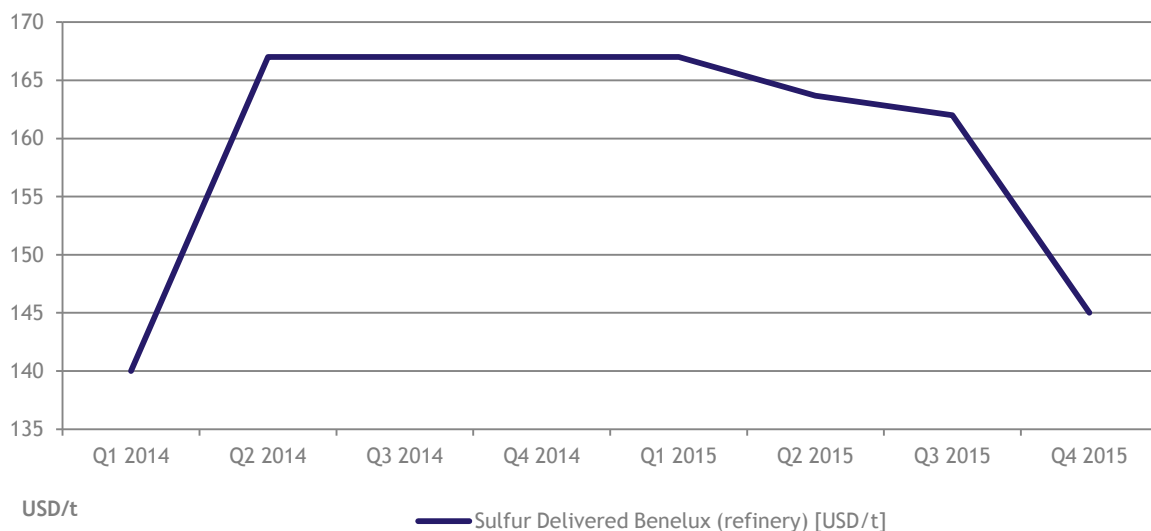
In the long term, demand for 2-EH and DOTP in Europe is forecast to increase annually by 2.9% and 6.2%, respectively. Nevertheless, the target markets are very sensitive to current geopolitical and

macroeconomic developments, and can easily be affected by pressures from the competitive environment. We predict that 2016 will see continued uncertainty and conservative procurement strategies on the part of customers.

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 %	12-2015 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).

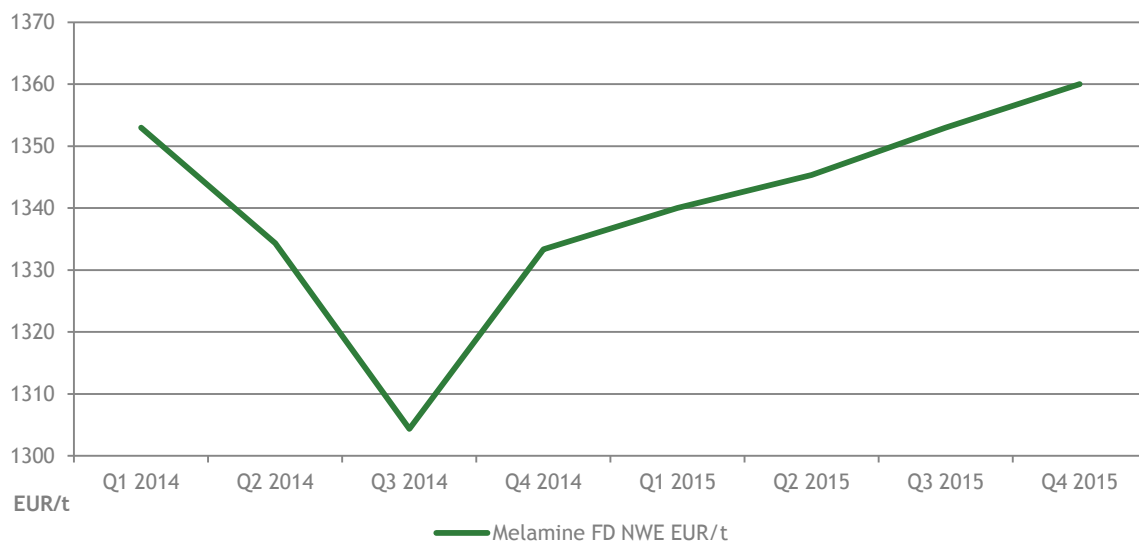
According to forecasts, in 2016 sulfur prices are to be lower by USD 5–15/t than in 2015. Key drivers will include increased supply and availability of sulfur, and projected lower demand for compound fertilizers, including DAP (key product manufactured with sulfur).

Melamine

In 2015, contract prices of melamine on the European market rose by ca. 1.4% year on year, driven by increased demand from North America, Turkey and Russia.

In the autumn season, higher demand for melamine was seen in the construction and automotive sectors.

Prices of melamine



Source: ICIS, Global Bleaching Chemicals.

Source: ICIS, Global Bleaching Chemicals.	Average 2014 EUR/t	Average 2015 EUR/t	yoy %	12-2015 EUR/t	MIN 2015 EUR/t	MAX 2015 EUR/t
Melamine	1,331	1,350	1.4	1,360	1,340	1,360

Given the stable market, in 2016 melamine prices in Europe should remain at levels close to 2015, or may rise slightly, with demand following a similar pattern.

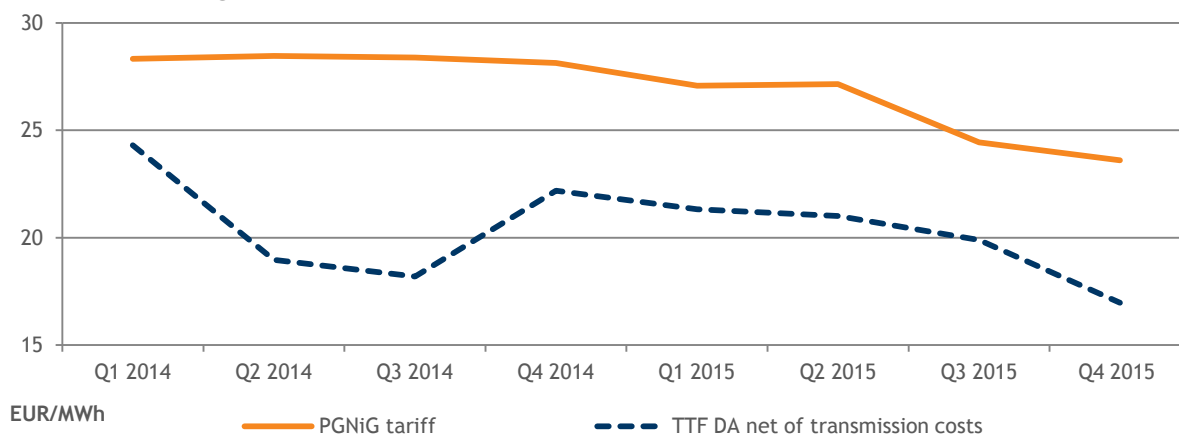
ENERGY

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 %	12-2015 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

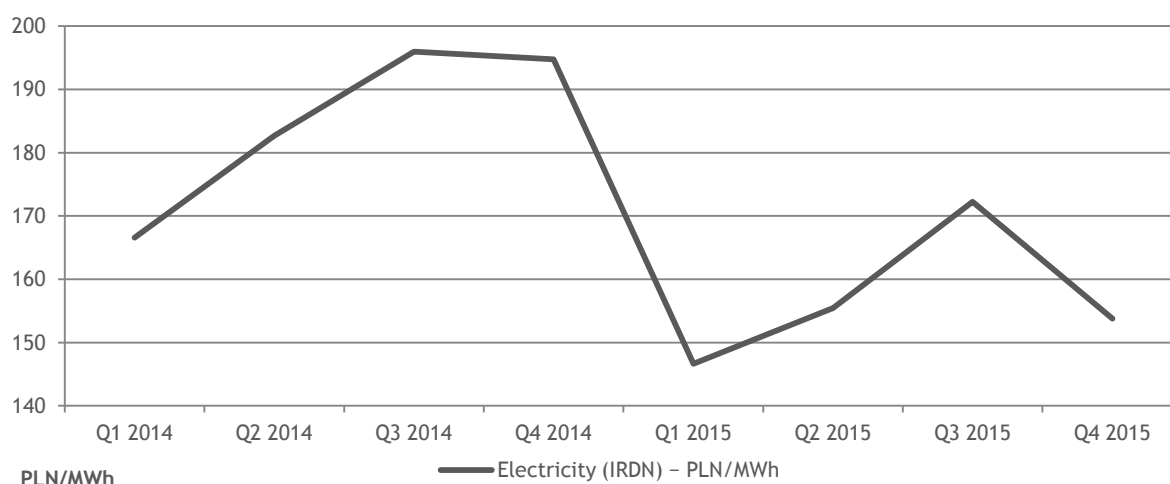
The rate of growth in global consumption of natural gas in 2016–2017 is forecast at 1.7% per year, close to the average levels seen over the last five years, while its annual production in 2016–2017 is expected to go up by 2.1%. Russia's reaction to planned LNG supplies from the US to Europe and to the 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.

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 %	12-2015 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:

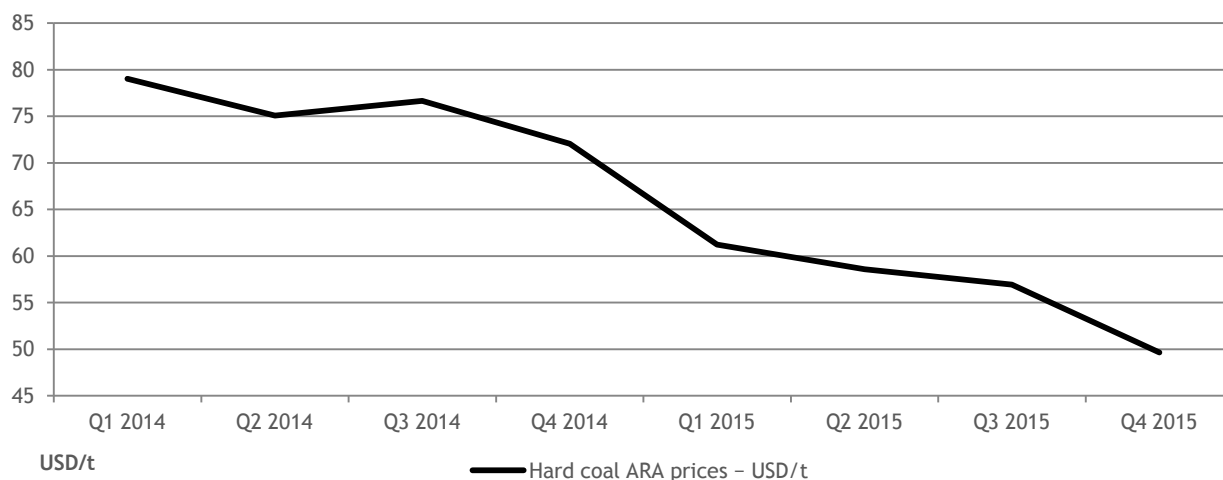
- Proposed resolution of the crisis in the Polish coal mining industry with the participation of energy companies, difficult restructuring of coal sector companies;
- New obligations imposed on electricity producers by the Act on Renewable Energy Sources;
- Falling prices of natural gas;
- Continuing 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.

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 %	12-2015 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.

5.3. Key financial and economic data

5.3.1. Consolidated financial information

In 2015, the Grupa Azoty Group earned a positive EBITDA of PLN 1,314,821 thousand and net profit of PLN 691,848 thousand.

This means a year-on-year improvement of PLN 492,416 thousand and PLN 426,793 thousand, respectively.

Consolidated data

Item	2015	2014	change	% change
Revenue	10,024,405	9,898,476	125,929	1.3
Cost of sales	(7,760,211)	(8,231,565)	471,354	(5.7)
Gross profit	2,264,194	1,666,911	597,283	35.8
Selling and distribution expenses	(633,314)	(581,145)	(52,169)	9.0
Administrative expenses	(736,546)	(739,977)	3,431	(0.5)
Profit from sales	894,334	345,789	548,545	158.6
Net other expenses	(64,323)	(43,559)	(20,764)	47.7
Operating profit	830,011	302,230	527,781	174.6
Net finance costs	(4,666)	(12,631)	7,965	(63.1)
Share of profit of equity-accounted associates	13,737	13,940	(203)	(1.5)
Profit before tax	839,082	303,539	535,543	176.4
Tax expense	(147,234)	(37,731)	(109,503)	290.2
Net profit from continuing operations	691,848	265,808	426,040	160.3
Loss from discontinued operations	-	(753)	753	(100.0)
Net profit	691,848	265,055	426,793	161.0
EBIT	830,011	302,230	527,781	174.6
Depreciation and amortisation	484,810	520,175	(35,365)	(6.8)
EBITDA	1,314,821	822,405	492,416	59.9

Source: Company data.

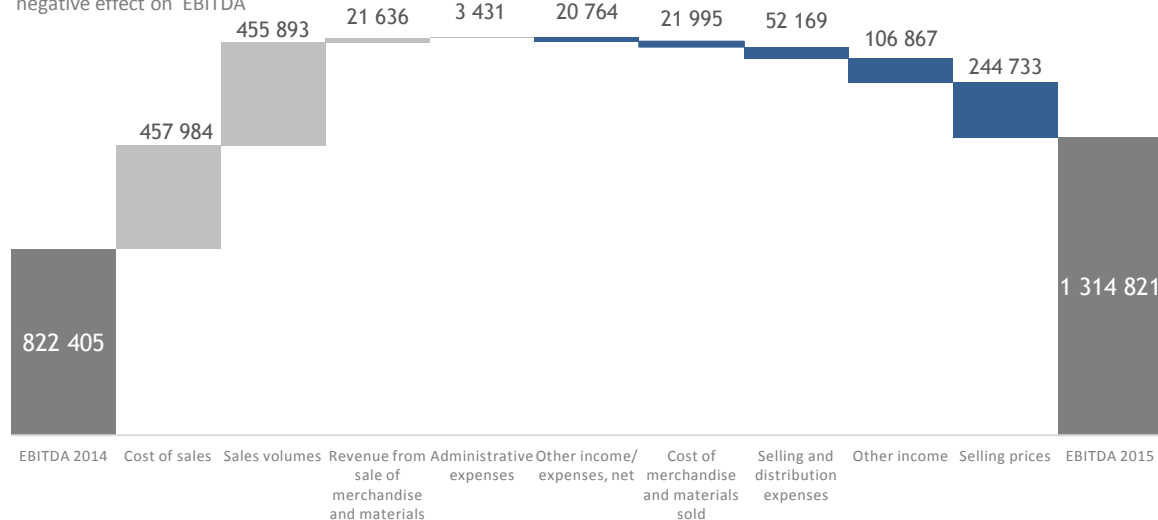
With revenue up 1.3% year on year and lower cost of sales (down by 5.7%), the Grupa Azoty Group reported gross profit. The gross profit figure improved by PLN 597,283 relative to 2014.

Gross profit net of selling and distribution expenses and administrative expenses reached PLN 894,334 thousand, and was PLN 548,545 thousand higher than the year before.

In 2015, the balance of other income and other expenses was negative, at PLN (64,323) thousand, which had an adverse impact on EBIT. It came in at PLN 830,011 thousand, up by PLN 527,781 thousand year on year.

EBITDA - key drivers

■ positive effect on EBITDA
■ negative effect on EBITDA



Source: Company data.

5.3.2. Segments' results

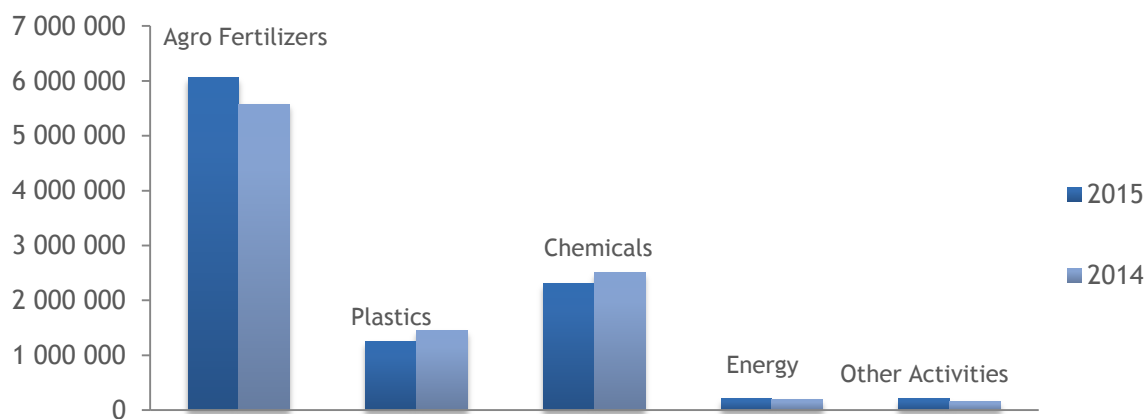
EBIT by segment

	Agro Fertilizers	Plastics	Chemicals	Energy	Other Activities
External revenue	6,057,906	1,247,971	2,302,233	209,236	207,059
Gross profit/(loss)	841,087	(47,019)	70,593	(2,651)	32,324
EBIT	848,785	(58,817)	39,182	3,587	(2,726)

Source: Company data.

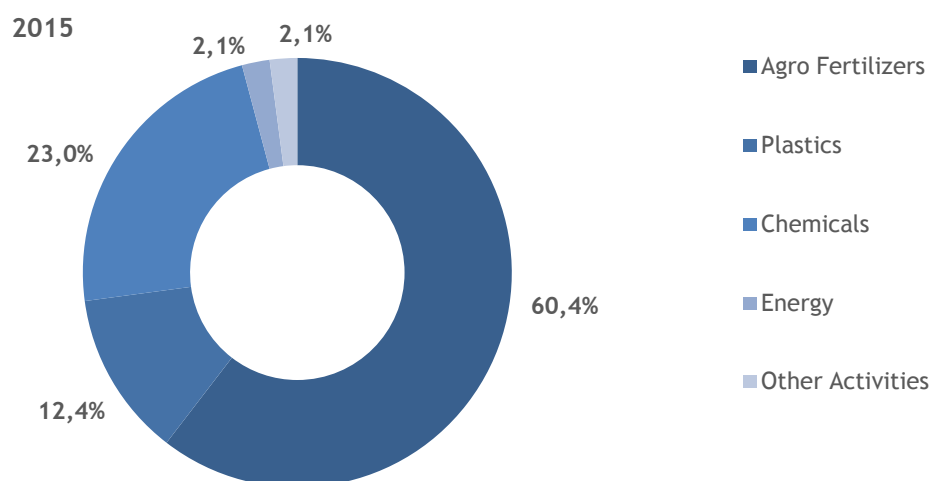
Profit on sales of the Grupa Azoty Group's products in 2015 was determined primarily by the market situation in the Agro Fertilizers segment. Revenue in the Agro Fertilizers segment was up 8.6% year on year. Revenue generated by the Other Activities and Energy segments also increased, by 31.3% and 7.5%, respectively. The other segments recorded revenue declines: by 14.5% in the Plastics segment, and by 8.1% in the Chemicals segment.

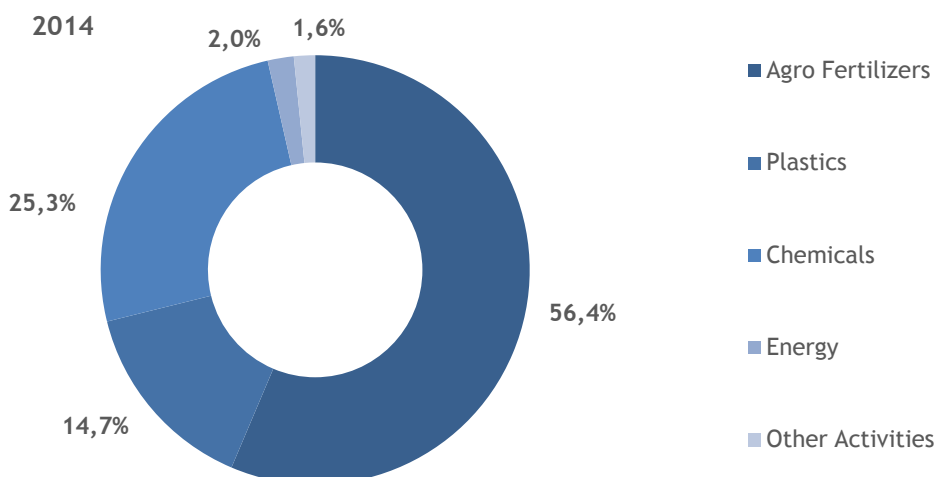
Revenue by segment



Source: Company data.

Revenue by segment





Source: Company data.

The shares of individual segments in total revenue changed compared with 2014: the contributions from the Agro Fertilizers, Other Activities and Energy segments grew, by 4.0pp, 0.5pp and 0.1pp, respectively, while the shares of each of the Plastics and Chemicals segments fell by 2.3pp.

Agro Fertilizers

In 2015, revenue in the Agro Fertilizers segment came in at PLN 6,057,906 thousand and accounted for 60.4% of the Group's total revenue. The segment's revenue and its share in the Group's total revenue grew, respectively, by 8.6% and 4.0pp relative to 2014.

EBIT reported by the Group in the Agro Fertilizers segment was positive.

Domestic market accounted for approximately 69.0% of the segment's sales.

Plastics

Revenue in the Plastics segment was PLN 1,247,971 thousand and accounted for 12.4% of the Group's total revenue. The revenue figure was down 14.5% year on year. More than 91.7% of the segment's revenue was derived from sales on foreign markets.

The segment's EBIT improved relative to 2014.

Chemicals

In 2015, revenue in the Chemicals segment amounted to PLN 2,302,233 thousand, having fallen 8.1% year on year. The Chemicals segment's revenue accounted for 23.0% of the Group's total revenue figure. The segment's EBIT improved significantly relative to 2014: it was positive, at PLN 39,182 thousand.

Sales on foreign markets accounted for approximately 61.0% of the Chemicals segment's revenue.

Energy

In 2015, revenue in the Energy segment was PLN 209,236 thousand and accounted for approximately 2.1% of the Group's total revenue. The segment's revenue grew 7.5% year on year. EBIT reported by the Group in the Energy segment was positive.

Domestic market accounted for approximately 99.1% of the Energy segment's sales.

Other Activities

In 2015, revenue in the Other Activities segment amounted to PLN 207,059 thousand, and accounted for 2.1% of the Group's total revenue, having increased by 31.3% relative to 2014. The segment's EBIT in 2015 declined by 14.2% on the same period of the previous year.

Domestic market accounted for approximately 90.2% of the Other Activities segment sales.

5.3.3. Operating expenses

In 2015, operating expenses were PLN 8,985,467 thousand, down by PLN 472,392 thousand year on year. The decrease was attributable to lower amounts of costs of raw materials and consumables used, taxes and charges as well as depreciation and amortisation. There was an increase in cost of services, cost of salaries and wages, including overheads, and other benefits, and other costs.

Operating expenses by nature

	2015	2014*	change	% change
Depreciation and amortisation	484,810	520,175	(35,365)	(6.8)
Raw materials and consumables used	5,619,255	6,143,389	(524,134)	(8.5)
Services	1,099,098	1,038,684	60,414	5.8
Salaries and wages, including overheads, and other benefits	1,255,419	1,214,488	40,931	3.4
Taxes and charges	371,041	414,791	(43,750)	(10.5)
Other costs	155,844	126,332	29,512	23.4
Total	8,985,467	9,457,859	(472,392)	(5.0)

Source: Company data.

* Financial data restated in accordance with the information presented in Note 2.3.1 to the consolidated financial statements.

Other operating expenses

In 2015, operating expenses other than cost of raw materials and consumables used accounted for 37.5% of total operating expenses, up from 35.0% in the corresponding period of 2014. The structure of these expenses changed only slightly relative to the comparative period.

Structure of other operating expenses [%]

	2015	2014*
Depreciation and amortisation	5.4	5.5
Services	12.2	11.0
Salaries and wages, including overheads, and other benefits	14.0	12.8
Taxes and charges	4.1	4.4
Other costs	1.7	1.3
Total	37.5	35.0

Source: Company data.

* Financial data restated in accordance with the information presented in Note 2.3.1 to the consolidated financial statements.

5.3.4. Structure of assets, equity and liabilities

In 2015, the Group's assets rose to PLN 10,777,169 thousand, by PLN 828,837 thousand relative to the end of 2014. As at December 31st 2015, non-current assets stood at PLN 7,224,923 thousand, and current assets were PLN 3,552,246 thousand.

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

- 8.9% increase in property, plant and equipment,
- 634.3% increase in other financial assets,
- 34.8% increase in cash and cash equivalents,
- 12.1% decrease in inventories,
- 12.1% decrease in trade receivables.

Structure of assets

	2015	2014*	change	% change
Non-current assets, including:	7,224,923	6,719,453	505,470	7.5
Property, plant and equipment	6,429,767	5,905,106	524,661	8.9
Intangible assets	532,798	509,964	22,834	4.5
Investments in subordinated entities	111,095	110,842	253	0.2
Deferred tax assets	62,769	86,941	(24,172)	(27.8)
Investment property	52,204	54,968	(2,764)	(5.0)
Current assets, including:	3,552,246	3,228,879	323,367	10.0
Inventories	1,180,599	1,343,513	(162,914)	(12.1)
Trade and other receivables	1,078,292	1,227,334	(149,042)	(12.1)
Cash and cash equivalents	753,144	558,603	194,541	34.8
Other financial assets	502,885	68,484	434,401	634.3
Other current assets	32,047	24,118	7,929	32.9
Total assets	10,777,169	9,948,332	828,837	8.3

Source: Company data.

* Financial data restated in accordance with the information presented in Note 2.3.1 to the consolidated financial statements.

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

- 10.0% increase in equity,
- 49.3% increase in non-current liabilities,
- 119.6% increase in non-current liabilities under borrowings,
- 5.5% decrease in trade and other payables,
- 76.7% decrease in current liabilities under borrowings,

Structure of equity and liabilities

Item	2015	2014	change	% change
Equity	7,136,221	6,488,136	648,085	10.0
Non-current liabilities, including:	1,785,146	1,195,845	589,301	49.3
Borrowings	1,047,450	476,932	570,518	119.6
Employee benefit obligations	326,968	312,419	14,549	4.7
Provisions	100,740	113,106	(12,366)	(10.9)
Deferred tax liabilities	245,868	231,692	14,176	6.1
Current liabilities, including:	1,855,802	2,264,351	(408,549)	(18.0)
Borrowings	118,880	509,259	(390,379)	(76.7)
Employee benefit obligations	33,167	30,494	2,673	8.8
Trade and other payables	1,347,227	1,425,553	(78,326)	(5.5)
Provisions	273,447	211,432	62,015	29.3
Total equity and liabilities	10,777,169	9,948,332	828,837	8.3

Source: Company data.

5.4. Financial ratios

Profitability ratios

	2015	2014
Gross profit margin	22.6 %	16.8 %
EBIT margin	8.3 %	3.1 %
EBITDA margin	13.1 %	8.3 %
Net profit margin	6.9 %	2.7 %
ROA	6.4 %	2.7 %
ROCE	9.3 %	3.9 %
ROE	9.7 %	4.1 %
Return on non-current assets	9.6 %	3.9 %

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	1.9	1.4
Quick ratio	1.3	0.8
Cash ratio	0.7	0.3

Source: Company data.

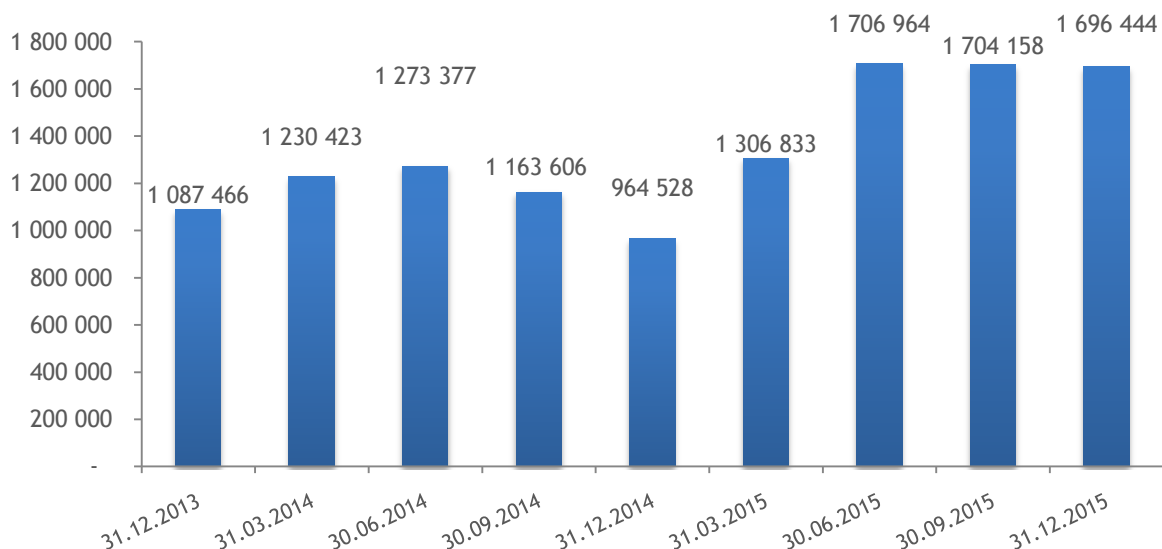
Ratio formulas:

Current ratio = current assets / current liabilities

Quick ratio = (current assets - inventory - current prepayments and accrued income) / current liabilities

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

Changes in working capital*



Source: Company data.

* Financial data restated in accordance with the information presented in Note 2.3.1 to the consolidated financial statements.

Operating efficiency ratios

	2015	2014*
Inventory turnover	55	59
Average collection period	39	45
Average payment period	62	62
Cash conversion cycle	31	41

Source: Company data.

* Financial data restated in accordance with the information presented in Note 2.3.1 to the consolidated 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	33.8 %	34.8 %
Long-term debt ratio	16.6 %	12.0 %
Short-term debt ratio	17.2 %	22.8 %
Equity-to-debt ratio	196.0 %	187.5 %
Interest cover ratio	2,169.3 %	687.5 %

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

The Grupa Azoty Group has access to umbrella overdraft limits under virtual cash pooling and under a multi-purpose credit facility, which may be used by the Parent 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 facilities that are available to the Group companies.

The aggregate value of available overdraft limits and multi-purpose credit facilities available to the Group as at December 31st 2015 was PLN 650,355 thousand.

Those overdraft limits and multi-purpose credit facilities, along with the long-term credit facilities secured under the "New Financing" package, totalling PLN 1,934,629 thousand as at December 31st 2015, represent financial resources which are sufficient to service current and future liabilities of the Group.

Importantly, the Group maintains high amounts of excess cash, including in bank deposits (PLN 1,244,891 thousand as at December 31st 2015), and therefore the risk of liquidity loss is very low.

In 2015, the Grupa Azoty Group increased its borrowings from PLN 986,191 thousand to PLN 1,166,330 thousand, of which the Parent's borrowings rose 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 the Group's total financing decreased substantially, from PLN 509,259 thousand to PLN 118,880 thousand.

In 2015, none of the Group companies defaulted on any of their liabilities or financial covenants where such default would trigger acceleration of the liabilities.

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

In the opinion of their strategic lenders, the Parent 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 Parent 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;
- The Parent's dividend policy with respect to its subsidiaries reflected the financing requirements of the Parent's and the 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, the Group'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, the Group companies maintained other free cash in short-term deposits held with reputable banking institutions offering highest interest rates, in particular rates above the 1M WIBOR rate per annum, applicable to amounts netted off as part of the cash-pooling arrangement.

As at December 31st 2015, the Group companies held a total of PLN 1,240,717 thousand in bank accounts and short-term deposits, of which PLN 151,350 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 of the above funds were presented in the Group's consolidated financial statements in the following items:

- cash and cash equivalents - PLN 753,144 thousand (maturing in up to 3 months);
- other current financial assets - PLN 487,573 thousand (maturing in more than 3 months but less than 1 year).

The Group earned a total of PLN 13,887 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 the Group is based on variable interest rates. Depending on the currency, the rates are based on WIBOR, EURIBOR or LIBOR. In addition, the Grupa Azoty Group 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, Group companies signed the following material agreements and annexes to agreements relating to financial matters.

The agreements are presented in chronological order.

Factoring agreement

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

Annex to credit facility agreement signed by Remzap Sp. z o.o.

On January 21st 2015, Remzap Sp. z o.o. signed an annex to the PLN 2m credit facility agreement of January 27th 2012 concluded with Bank Millennium S.A. Under the annex, the agreement's term was extended until January 26th 2016.

Annex to credit facility agreement signed by AFRIG S.A.

On March 19th 2015, AFRIG S.A. and BNP Paribas S.A. signed an annex to their EUR 8m multi-purpose credit facility agreement of February 18th 2014. Under the annex, the facility amount was increased to EUR 13m.

Term credit facility agreement signed by Grupa Azoty KĘDZIERZYN

In Q1 2015, Bank Gospodarstwa Krajowego (BGK) disbursed the first tranche (PLN 46,080 thousand) under the PLN 256,000,000 term credit facility agreement of October 22nd 2014. The facility was contracted to refinance expenditure incurred on the investment project "New CHP plant at Grupa Azoty KĘDZIERZYN - Phase 1".

As part of the second drawdown under the syndicated revolving credit facility, on June 30th 2015 the amount outstanding under the above agreement with BGK was refinanced, the agreement expired and all security created under the agreement was released.

Grupa Azoty KĘDZIERZYN's investment credit facility

In Q1 2015, Bank Gospodarstwa Krajowego (BGK) disbursed another tranche under the investment credit facility agreement No. 14/1585 of September 30th 2014 for up to PLN 21,155 thousand, intended for refinancing of expenditure incurred on the investment project "Launch of continuous production of OXOPLAST® OT".

As part of the second drawdown under the syndicated revolving credit facility, on June 30th 2015 the amount outstanding under the above agreement with BGK was refinanced, the agreement expired and all security created under the agreement was released.

Credit facility agreement signed by Agrochem Puławy Sp. z o.o.

On April 14th 2015, Agrochem Puławy Sp. z o.o. signed an annex to its PLN 4.5m overdraft facility agreement with Bank Pekao S.A. of October 8th 2014. Under the annex, the facility amount was increased to PLN 8.0m. Subsequently, on November 17th 2015, the facility amount was increased to PLN 18m and its availability was extended until October 30th 2016.

On September 11th 2015, after Agrochem Puławy Sp. z o.o. gained access to the overdraft credit facility for Grupa Azoty Group companies granted by PKO BP, the company gave a notice of termination of its PLN 5m working capital facility agreement with PKO BP S.A. (the termination notice period was three months).

Subsequently, on November 17th 2015, Agrochem Puławy Sp. z o.o. signed with Bank Pekao S.A. a PLN 5m Working capital facility agreement valid until October 30th 2016.

Revolving credit facility agreement

On April 23rd 2015, the Parent 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 Parent (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, the Parent, 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).

Parent's prepayment of credit facility agreements with funds from the drawdown of the revolving credit facility

On April 30th 2015, the Parent 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 Parent 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 Parent'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 Parent's sub-limit of PLN 80,000 thousand.

Subsequently, on June 30th 2015, Grupa Azoty KĘDZIERZYN made a voluntary prepayment of all amounts outstanding under the following credit facility agreements, using proceeds from a loan granted by the Parent from the second drawdown of the syndicated revolving credit facility for the refinancing of existing financial liabilities:

- Term credit facility agreement executed with BGK on October 22nd 2014 to finance the investment project "New CHP plant at Grupa Azoty KĘDZIERZYN" – the amount of tranches drawn under the facility, i.e. PLN 46,080 thousand;
- Term credit facility agreement executed with BGK on September 22nd 2014 to finance the investment project "Launch of continuous production of OXOPLAST OT" – the amount of tranches drawn under the facility, i.e. PLN 16,853 thousand.

Grupa Azoty Prorem Sp. z o.o.'s framework bank guarantee agreement

On May 15th 2015, Grupa Azoty Prorem Sp. z o.o. entered into an agreement with PKO BP S.A. for bank guarantees of up to PLN 2m, effective until May 14th 2016.

Long-term credit facility agreement with EIB

On May 28th 2015, the Parent 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 Parent has access to financing bearing interest at both variable and fixed rates. In 2015, the Parent 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 Parent 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).

Grupa Azoty POLICE's receivables discounting agreement

The PLN 120m receivables discounting agreement between Grupa Azoty POLICE and Raiffeisen Bank S.A. of October 4th 2013 expired on June 15th 2015, as a result of which all the security created under the agreement was released.

Annex to Grupa Azoty KĘDZIERZYN's credit facility agreement

On June 2nd 2015, Grupa Azoty KĘDZIERZYN signed an annex to its PLN 40m overdraft facility agreement with BGK of October 22nd 2014. Under the annex, all the security created over Grupa Azoty KĘDZIERZYN's assets was released, and the agreement's material terms, conditions and covenants were harmonised with those applicable under the syndicated revolving credit facility agreement.

Grupa Azoty POLICE's credit facility agreement

On June 25th 2015, Grupa Azoty POLICE terminated (by mutual agreement of the parties) its PLN 50,000 thousand investment credit facility agreement made on June 13th 2014 to finance the investment project "Exhaust gas treatment unit and upgrade of the EC II CHP plant at Grupa Azoty Zakłady Chemiczne Police S.A." following implementation of the agreements under the Grupa Azoty Group's "New Financing" package.

Annex to Grupa Azoty POLICE's credit facility agreement

On June 26th 2015, Grupa Azoty POLICE signed an annex to its PLN 80m overdraft facility agreement with BGK of November 13th 2013. Under the annex, all the security created over Grupa Azoty POLICE's assets was released, and the agreement's material terms, conditions and covenants were harmonised with those applicable under the revolving credit facility agreement.

Another annex to the same agreement, dated July 30th 2015, was executed to amend the statement on voluntary submission to enforcement made under the agreement so as to ensure its consistency with the relevant judgment issued by Polish Constitutional Court.

Annexes to receivables discounting agreements with mBank

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

On July 3rd 2015, the Parent 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 Parent 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 Parent 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.

Grupa Azoty PUŁAWY's overdraft facility agreement

On August 24th 2015, Grupa Azoty PUŁAWY signed a PLN 50m overdraft facility agreement with BZ WBK, intended for the financing of the company's day-to-day operations, effective until May 31st 2016.

Grupa Azoty POLICE's loan agreements

On October 15th 2015, Grupa Azoty POLICE made a decision to discontinue the PLN 6,228 thousand loan agreement it had executed with the Regional Fund for Environmental Protection and Water Management in Szczecin to finance the investment project "Expansion of the post-calcination gas desulfurization system at facility No. 414 at the Titanium White Plant of Z.Ch. Police S.A." The loan was not disbursed.

Grupa Azoty PUŁAWY's intraday overdraft facility agreement

On November 30th 2015, Grupa Azoty PUŁAWY signed Annex No. 7 to the PLN 2m intraday overdraft facility agreement with Bank Pekao S.A. The annex extends the lending period until November 30th 2016.

5.8. Loans granted, in particular to Grupa Azoty's related entities

Intragroup loans granted in 2015

Set-off of claims under a loan between Grupa Azoty PUŁAWY and AGROCHEM Sp. z o.o.

On January 26th 2015, claims under a PLN 11m loan granted to AGROCHEM Sp. z o.o. of Dobre Miasto pursuant to a loan agreement of March 19th 2013 were offset against the amounts payable by Grupa Azoty PUŁAWY on account of subscription for shares in AGROCHEM Sp. z o.o.

Loan agreement between Grupa Azoty PUŁAWY and Zakłady Azotowe Chorzów S.A.

On March 13th 2015, Grupa Azoty PUŁAWY advanced a PLN 4.3m special-purpose loan to Zakłady Azotowe Chorzów S.A. for the financing of the latter company's working capital. The final loan repayment date falls in March 2020.

On August 26th 2015, Annex 1 to a registered pledge agreement was signed with Zakłady Azotowe Chorzów S.A., securing a PLN 4.3m loan advanced to Zakłady Azotowe Chorzów S.A. on March 13th 2015.

Loan agreement between Grupa Azoty PUŁAWY and Bałtycka Baza Masowa Sp. z o.o.

On April 27th 2015, Grupa Azoty PUŁAWY signed a PLN 1m loan agreement with Bałtycka Baza Masowa Sp. z o.o., with the repayment date falling on December 31st 2016. The loan is to be used to finance day-to-day operations of Bałtycka Baza Masowa.

On July 3rd 2015, Grupa Azoty PUŁAWY signed an agreement with BBM Sp. z o.o. for the assignment of rights under an insurance policy. The agreement secures the liabilities of Bałtycka Baza Masowa Sp. z o.o. under the PLN 1m loan agreement of April 27th 2015 and a PLN 1m loan agreement of December 23rd 2014.

On December 23rd 2015, a consolidation agreement was signed, consolidating two loan agreements signed on December 23rd 2014 and on April 27th 2015 with Bałtycka Baza Masowa Sp. z o.o. and providing for an additional loan of PLN 2m. The total liability under the consolidated loans and additional loan is PLN 4m, payable in 36 monthly instalments as of January 2016. The last instalment will be paid no later than on December 31st 2018. The abovementioned loan agreements became null and void on the date of signing the consolidation agreement.

Termination of an agreement between Grupa Azoty PUŁAWY and Agrochem Puławy Sp. z o.o.

On November 25th 2015, an agreement specifying the conditions of repayment of liabilities of November 29th 2012 and a registered pledge agreement of October 15th 2013 signed with Agrochem Puławy Sp. z o.o. were terminated. At the same time, on November 25th 2015 a new agreement establishing a registered pledge over inventories for up to PLN 11.2m was signed to secure the repayment of liabilities.

Repayment of a loan under an agreement between Grupa Azoty PUŁAWY and GZNF Fosfory Sp. z o.o.

On December 23rd 2015, part of the loan (PLN 10m) was prepaid by GZNF Fosfory Sp. z o.o. The prepayment was made in accordance with an agreement specifying the conditions of repayment of liabilities of May 26th 2011 and included one instalment falling due in December 2015 and nine instalments falling due in the period January-September 2016. Subsequent instalments will be repaid in accordance with the repayment schedule.

Loan agreement between Grupa Azoty KĘDZIERZYN and ZAKSA S.A.

On November 18th 2015, Grupa Azoty KĘDZIERZYN and ZAKSA S.A. signed a loan agreement for PLN 500 thousand for the financing of day-to-day operations, with the agreed repayment date falling on February 28th 2016. The loan was repaid on January 7th 2016.

Loans advanced to third parties

Loan agreement between Grupa Azoty POLICE and Pogoń Szczecin S.A.

On October 2nd 2015, Grupa Azoty POLICE entered into a PLN 1.5m loan agreement with Pogoń Szczecin S.A. The loan was disbursed on October 5th 2015 and repaid on October 22nd 2015.

Loans advanced by the Parent 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 Parent advanced the following loans in 2015:

- To Grupa Azoty KĘDZIERZYN:
 - in the form of a PLN 16.8m 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 2.5m were repaid. The principal amount is to be repaid in quarterly instalments by December 31st 2018;
 - in the form of a PLN 46m 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 256m 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 209.9m 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 88.9m 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 60m 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 20m was drawn. The principal amount is to be repaid in instalments by December 31st 2024;
 - in the form of a PLN 104m 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, three tranches of PLN 78m were drawn. The principal amount is to be repaid in instalments by April 23rd 2020;

5.9. Guarantees and sureties issued and received, in particular in respect of related entities

Sureties

In order to secure the syndicated revolving credit facility agreement as well as the multi-purpose credit facility agreement and overdraft facility agreement with PKO BP, on April 23rd 2015 Grupa Azoty POLICE, Grupa Azoty PUŁAWY and Grupa Azoty KĘDZIERZYN issued sureties under a harmonised mechanism whereby each of those subsidiaries provided surety for one-third of 120% of the amount of each of the above credit facilities.

On July 9th 2015, the Company issued a surety of PLN 1,800 thousand in respect of the liabilities of Grupa Azoty Folie Sp. z o.o. under a loan advanced by Grupa Azoty Jednostka Ratownictwa Chemicznego Sp. z o.o. for the financing and refinancing of costs related to the lease of Ammono S.A.'s business.

The surety is no longer valid due to termination of the loan agreement as of October 5th 2015 by mutual agreement of the parties, following repayment of the loan of PLN 1,800 thousand by the borrower Grupa Azoty Folie Sp. z o.o.

Sureties issued in 2015 upon instructions of the Grupa Azoty Group companies

Type of and parties to the surety	Issue date	Security for	Surety amount (PLN '000)	Validity date
Surety issued by Grupa Azoty POLICE to mBank	22.01.2015 (Annex no. 10)	Liabilities under an investment credit facility agreement between BBM Sp. z o.o. and mBank	USD 730 thousand (the liability covered by the surety has been repaid)	30.12.2017
Surety issued by Grupa Azoty POLICE to PKO BP S.A. (revolving credit facility agent)	23.04.2015	Liabilities under the PLN 1,500m revolving credit facility agreement concluded by the Parent with PKO BP S.A., BGK, BZ WBK S.A. and ING BSK S.A.	600,000	23.04.2020
Surety issued by Grupa Azoty PUŁAWY to PKO BP S.A. (revolving credit facility agent)	23.04.2015	Liabilities under the PLN 1,500m revolving credit facility agreement concluded by the Parent with PKO BP S.A., BGK, BZ WBK S.A. and ING BSK S.A.	600,000	23.04.2020
Surety issued by Grupa Azoty KĘDZIERZYN to PKO BP S.A. (revolving credit facility agent)	23.04.2015	Liabilities under the PLN 1,500m revolving credit facility agreement concluded by the Parent with PKO BP S.A., BGK, BZ WBK S.A. and ING BSK S.A.	600,000	23.04.2020
Surety issued by Grupa Azoty POLICE to PKO BP S.A.	23.04.2015	Liabilities under the PLN 302m overdraft facility agreement concluded by the Parent and its subsidiaries with PKO BP S.A.	120,800	30.09.2016
Surety issued by Grupa Azoty PUŁAWY to PKO BP S.A.	23.04.2015	Liabilities under the PLN 302m overdraft facility agreement concluded by the Parent and its subsidiaries with PKO BP S.A.	120,800	30.09.2016
Surety issued by Grupa Azoty KĘDZIERZYN to PKO BP S.A.	23.04.2015	Liabilities under the PLN 302m overdraft facility agreement concluded by the Parent and its subsidiaries with PKO BP S.A.	120,800	30.09.2016
Surety issued by Grupa Azoty POLICE to PKO BP S.A.	23.04.2015	Liabilities under the consolidated PLN 237m multi-purpose credit facility agreement concluded by the Parent and its subsidiaries with PKO BP S.A.	94,800	30.09.2016
Surety issued by Grupa Azoty PUŁAWY to PKO BP S.A.	23.04.2015	Liabilities under the consolidated PLN 237m multi-purpose credit facility agreement concluded by the Parent and its subsidiaries with PKO BP S.A.	94,800	30.09.2016
Surety issued by Grupa Azoty KĘDZIERZYN to PKO BP S.A.	23.04.2015	Liabilities under the consolidated PLN 237m multi-purpose credit facility agreement concluded by the Parent and its subsidiaries with PKO BP S.A.	94,800	30.09.2016
Surety issued by the Parent to Grupa Azoty JRCh Sp. z o.o.	09.07.2015	Liabilities under the PLN 1,800 thousand loan agreement concluded between Grupa Azoty Folie sp. z o.o and Grupa Azoty JRCh Sp. z o.o.	1,800	05.10.2015

Source: Company data.

Guarantees

On May 28th 2015, the Parent 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 the Parent'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 Parent and the EBRD signed a credit facility agreement for up to PLN 150m, and the Parent, 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 the Parent'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).

Guarantees issued in 2015 by or upon instructions of the Grupa Azoty Group companies

Type and parties	Issue date	Security for	Guarantee amount (PLN '000)	Validity date
Bank guarantee issued by PKO BP S.A. to Vitkovice Power Engineering upon instruction of Prozap Sp. z o.o.	18.03.2015	Payment guarantee	CZK 17,916 thousand	30.04.2015
Bank guarantee issued by PKO BP S.A. to Vitkovice Power Engineering upon instruction of Prozap Sp. z o.o.	23.06.2015	Payment guarantee	5,091	10.01.2016
Bank guarantee issued by PKO BP S.A. to Air Liquide Global E&C Solutions Poland S.A. upon instruction of Prozap Sp. z o.o.	18.08.2015	Performance bond	64	30.06.2018
Bank guarantee issued to Grupa Azoty POLICE upon instruction of Remzap Sp. z o.o.	18.05.2015	Guarantee for removal of faults and defects	9	27.12.2016
Bank guarantee issued by PKO BP S.A. to PGE S.A. upon Grupa Azoty POLICE's instruction	04.02.2015	Performance bond under an open tender	118	01.03.2016
Bank guarantee issued by PKO BP S.A. to PSE S.A. upon Grupa Azoty POLICE's instruction	11.05.2015	Payment guarantee for electricity transmission contract	800	31.12.2015
Bank guarantee issued by PKO BP S.A. to OGP GAZ-SYSTEM S.A. upon Grupa Azoty POLICE's instruction	01.06.2015	Payment guarantee for gas transmission contract	80	30.11.2015
Bank guarantee issued by PKO BP S.A. to OGP GAZ-SYSTEM S.A. upon Grupa Azoty POLICE's instruction	01.06.2015	Payment guarantee for gas transmission contract	7,731	30.11.2015
Bank guarantee issued by PKO BP S.A. to OGP GAZ-SYSTEM S.A. upon Grupa Azoty POLICE's instruction	17.12.2015	Payment guarantee for gas transmission contract	144	30.11.2016
Bank guarantee issued by PKO BP S.A. to OGP GAZ-SYSTEM S.A. upon Grupa Azoty POLICE's instruction	17.12.2015	Payment guarantee for gas transmission contract	9,350	30.11.2016
Guarantee issued by Grupa Azoty POLICE to the EIB	28.05.2015	Liabilities under the PLN 550m credit facility agreement between the Parent and the EIB	220,000	28.05.2025
Guarantee issued by Grupa Azoty PUŁAWY to the EIB	28.05.2015	Liabilities under the PLN 550m credit facility agreement between the Parent and the EIB	220,000	28.05.2025
Guarantee issued by Grupa Azoty KĘDZIERZYN to the EIB	28.05.2015	Liabilities under the PLN 550m credit facility agreement between the Parent and the EIB	220,000	28.05.2025
Guarantee issued by Grupa Azoty POLICE to the EBRD	28.05.2015	Liabilities under the PLN 150m credit facility agreement between the Parent and the EIB	60,000	28.05.2025
Guarantee issued by Grupa Azoty PUŁAWY to the EBRD	28.05.2015	Liabilities under the PLN 150m credit facility agreement between the Parent and the EIB	60,000	28.05.2025
Guarantee issued by Grupa Azoty KĘDZIERZYN to the EBRD	28.05.2015	Liabilities under the PLN 150m credit facility agreement between the Parent and the EIB	60,000	28.05.2025

Type and parties	Issue date	Security for	Guarantee amount (PLN '000)	Validity date
Bank guarantee issued by PKO BP S.A. to OGP GAZ-SYSTEM S.A. upon Grupa Azoty KĘDZIERZYN's instruction	12.10.2015	Payment guarantee for gas transmission contract	115	30.11.2016
Bank guarantee issued by PKO BP S.A. to the Customs Chamber upon Grupa Azoty KĘDZIERZYN's instruction	15.12.2015	Customs debt payment guarantee	100	29.02.2017
Bank guarantee issued by PKO BP S.A. to Enea Wytwarzanie Sp. z o.o. upon Grupa Azoty KĘDZIERZYN's instruction	23.12.2015	Customs debt payment guarantee	100	31.01.2017
Bank guarantee issued to Solvay Advanced Silicas Poland Sp. z o.o. upon instruction of Grupa Azoty Automatyka Sp. z o.o.	10.02.2015	Liabilities during the guarantee period	318	30.04.2016
Bank guarantee issued to Elektrobudowa S.A. upon instruction of Grupa Azoty Automatyka Sp. z o.o.	30.10.2015	Liabilities during the guarantee period	185	20.07.2016
Bank guarantee issued to Rafako S.A. upon instruction of Grupa Azoty Automatyka Sp. z o.o.	03.09.2015	Liabilities during the guarantee period	132	05.12.2016
Bank guarantee issued to Rafako S.A. upon instruction of Grupa Azoty Automatyka Sp. z o.o.	03.09.2015	Liabilities during the guarantee period	23	24.04.2017
Bank guarantee issued to Bioagra S.A. upon instruction of Grupa Azoty Automatyka Sp. z o.o.	10.12.2015	Liabilities during the guarantee period	320	15.12.2017
Bank guarantee issued to Rafako S.A. upon instruction of Grupa Azoty Automatyka Sp. z o.o.	15.12.2015	Liabilities during the guarantee period	61	05.12.2017
Bank guarantee issued to Mostostal Zabrze S.A. upon instruction of Grupa Azoty A Prorem Sp. z o.o.	08.07.2015	Contractual liabilities	52	30.09.2017
Bank guarantee issued to Rafako S.A. upon instruction of Grupa Azoty Prorem Sp. z o.o.	21.09.2015	Contractual liabilities	701	16.02.2016

Source: Company data.

On March 1st 2015, a EUR 4,340 thousand guarantee (standby letter of credit) issued by PKO BP S.A. to Statoil ASA upon instruction of Grupa Azoty PUŁAWY expired.

On March 31st 2015, validity of a USD 16,624 thousand import letter of credit, which had been issued in March 2010 upon instruction of Grupa Azoty PUŁAWY under a contract for the construction of a flue gas desulfurization unit, was extended until June 30th 2015.

On June 9th 2015, Grupa Azoty PUŁAWY applied to Bank PEKAO S.A., the issuer of the said letter of credit, to terminate the letter of credit prior to expiry of its validity period. In connection with expiry of the letter of credit, on August 3rd 2015 Bank PEKAO S.A. refunded USD 482,390.30 used as security to the account of Grupa Azoty PUŁAWY.

On April 10th 2015, a EUR 10,795 import letter of credit was issued upon instruction of Grupa Azoty PUŁAWY for a period until August 31st 2015 for the benefit of a supplier of equipment. The letter of credit was issued under a credit facility agreement. On July 20th 2015, a full payment under the said letter of credit was made.

On August 21st 2015, partial payment was made under the EUR 1,398 thousand import letter of credit issued on March 21st 2014 upon instruction of Grupa Azoty PUŁAWY, under a multi-purpose credit facility agreement concluded with PKO BP S.A. for a period until December 24th 2015. The letter of credit had been issued for the benefit of a supplier of equipment. Its balance remaining as at December 31st 2015 was EUR 0.

On August 12th 2015, partial payment of EUR 1,953 thousand was made under the import letter of credit issued on April 17th 2015 upon the Parent's instruction to secure liabilities under the contract for the construction of the new polyamide II unit. The EUR 2,232 thousand letter of credit had been issued under a multi-purpose credit facility agreement concluded with PKO BP S.A. Its balance remaining as at December 31st 2015 was EUR 279 thousand.

On November 30th 2015, December 18th 2015 and January 20th 2016, payments in the total amount of EUR 12,150 thousand were made under the import letter of credit issued on April 17th 2015 upon the Parent's instruction to secure liabilities under the contract for construction of the new Polyamide II Unit. The EUR 12,960 thousand letter of credit had been issued under a multi-purpose credit facility agreement concluded with PKO BP S.A. Its balance remaining as at December 31st 2015 was EUR 6,808 thousand (EUR 810 thousand as at the end of January 2016)
The validity period of the letters of credit issued upon instruction of the Parent expires on September 29th 2017.

In 2015, the Group did not sign any annexes to amend its guarantees with the value exceeding 10% of the Parent's equity.

Guarantees amended in 2015 upon instructions of the Grupa Azoty Group companies

Type and parties	Issue date	Security for	Guarantee amount (PLN '000)	Validity date
Bank guarantee issued by PKO BP S.A. to OGP GAZ-SYSTEM S.A. upon the Parent's instruction	29.04.2014 Jun 24 2014 - Annex no. 1 increasing the guarantee amount from PLN 406,470.35 Jul 23 2014 - Annex no. 2 increasing the guarantee amount from PLN 1,768,319.35 to PLN 2,008,806.98 Feb 13 2015 - Annex no. 3 reducing the guarantee amount from PLN 2,008,806.98 to PLN 1,546,218.24 and extending its validity period Jun 22 2015 - Annex no. 4 increasing the guarantee amount from 1,546,218.24 to PLN 1,592,308.80 (as of July 1st 2015) Nov 18 2015 - Annex no. 5 reducing the guarantee amount from PLN 1,592,308.80 to PLN 1,538,688.67 and extending its validity period (as of December 1st 2015)	Gas transmission contract (balancing services)	1,539	30.11.2016
Bank guarantee issued by PKO BP S.A. to OGP GAZ-SYSTEM S.A. upon the Parent's instruction	29.04.2014 Jun 24 2014 - Annex no. 1 increasing the guarantee amount from PLN 162,879.06 to PLN 601,054.06 Jul 23 2014 - Annex no. 2 increasing the guarantee amount from PLN 601,054.06 to PLN 1,270,851.43 Feb 13 2015 - Annex no. 3 reducing the guarantee amount from PLN 1,270,851.43 to PLN 917,857.23 and extending its validity period Nov 18 2015 - Annex no. 4 increasing the guarantee amount from PLN 917,857.23 to PLN 920,879.06 and extending its validity period	Gas transmission contract	921	30.11.2016
Bank guarantee issued by PKO BP S.A. to OGP GAZ-SYSTEM S.A. upon the Parent's instruction	Apr 29 2014 Nov 25 2014 - Annex no. 1 extending the validity date from November 30th 2014 to September 30th 2017 - total guarantee amount: PLN 9,064.84 Mar 25 2015 - Annex no. 2 increasing the guarantee amount to PLN 17,712 Jun 22 2015 - Annex no. 3 increasing the guarantee amount to PLN 36,211.20 (as of July 1st 2015) Sep 25 2015 - Annex no. 4 increasing the guarantee amount to PLN 50,282.40 (as of October 1st 2015)	Gas transmission contract	50	30.09.2017
Bank guarantee issued by PKO BP S.A. to the Customs Chamber in Szczecin upon Grupa Azoty POLICE's instruction	Mar 25 2015 - Annex	Customs debt payment guarantee	3,000	23.03.2016

Type and parties	Issue date	Security for	Guarantee amount (PLN '000)	Validity date
Bank guarantee issued by PKO BP S.A. to OGP GAZ-SYSTEM S.A. upon Grupa Azoty KĘDZIERZYN's instruction	Oct 12 2015 – Annex	Gas transmission contract	6,947	30.11.2016
Bank guarantee issued by PKO BP S.A. to PSE S.A. upon Grupa Azoty POLICE's instruction	Nov 9 2015 – Annex	Payment guarantee for electricity transmission contract	800	30.09.2016
Bank guarantee issued by PKO BP S.A. to the Customs Chamber in Kraków upon the Parent's instruction	Nov 24 2015 – Annex no. 6 (guarantee amount as of January 2016 – PLN 450 thousand)	Customs debt payment guarantee	800	02.03.2017

Source: Company data.

5.10. Material off-balance-sheet items

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

5.11. Financial instruments - risk management policy and risk management instruments, objectives and methods

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

Currency risk management

In 2015, the Grupa Azoty Group 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**
The Grupa Azoty Group 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.
The Group 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 the Group'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 Group's financial performance.
In accordance with the Policy, the objective of currency risk management at the Grupa Azoty Group is to reduce the impact of adverse exchange rate movements on the Group's cash flows to a level acceptable by the Group, 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 the Group'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 the Group 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.

The Group 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.

The Group 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

The Grupa Azoty Group 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.

The Group 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 Group 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 the Group'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 Group does not intend to use such instruments to hedge price volatility.

The Group 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

The Group has a credit risk management policy in place, which has been adopted by all key companies of the Group in which such risk exists.

- Identified credit risks
The Group's credit risk is related to:
 - Placements of cash and cash equivalents with 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 placements and trade credits
 - a) The total amount of placements of cash or other financial assets at any Group company should not exceed:
 - PLN 100m - at the Group's strategic bank with a low credit risk and high creditworthiness,
 - PLN 50m - at a bank important for the Group's operations, 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 the Group company based on the assessment of the trading partner's financial standing.
- Rules of credit risk management
 - a) Execution of transactions involving placement of cash and cash equivalents
 - Group companies make cash placements 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 making placements 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
 - Group companies determine 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 covered by security provided by a bank or other institution with a high creditworthiness,
 - In other cases, a 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, a Group company 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 the Grupa Azoty Group

As part of trade credit risk management, the Group 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 the Group companies.

Given the above, in July 2015 the Parent (with Grupa Azoty SIARKOPOL and Zakłady Azotowe Chorzów as co-insured) and Grupa Azoty KĘDZIERZYN signed uniform global trade receivables insurance agreements with KUKE for a new term expiring in July 2017. In December 2015, on the same terms Grupa Azoty PUŁAWY signed a receivables insurance agreement with EULER HERMES, expiring in December 2016. In November 2015, Grupa Azoty POLICE executed a global insurance agreement with ATRADIUS, valid until November 2017, providing for the same terms.

5.12. Expected financial standing

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

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

In 2015, the Parent did not pay dividend from the 2014 profit as it allocated all funds to support the implementation of the Investment Strategy, while other Group companies paid dividends from the 2014 profits on the dates specified in relevant resolutions on profit distribution passed by their general meetings.

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

The Group's financial standing is sound, and there are no material threats or risks of its deterioration in the future.

The Group's Budget for 2016 takes into account all market forecasts available to the Group and detailed budgets of its individual Business Units. The Budget accounts for the main assumptions and optimises economic parameters derived from trends identified in the macroeconomic environment and internally, within the organisation.

Furthermore, the Group 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 prospects

6.1. Significant risk factors and threats

Risk related to price and availability of natural gas

In its search for alternative and competitive sources of gas, the Group companies seek to diversify both the geographical regions and the suppliers of their gas imports, and report on these efforts in their press releases and reports. Negotiations with alternative gas suppliers are conducted at the Group level, which allows the Group to leverage its stronger bargaining position.

The Group takes steps to satisfy its overall gas demand 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. Currently, gas purchased by the Group is priced based on gas prices quoted on energy exchanges, which means that gas is purchased at prices similar to those paid by our competitors in the European Union.

The gas interconnector and gas storage facility extension projects, currently being implemented in Poland, and the launch of the LNG terminal in Świnoujście have minimised the risk related to availability of natural gas.

The Group companies also take steps to cut their gas consumption costs by implementing investment projects designed to reduce gas consumption rates.

Risks associated with the planning and execution of strategic projects

The Group companies are 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 prevent the Group from developing as planned and from achieving its strategic objectives. The risk inherent in the execution of strategic projects lies in the possibility that major growth-oriented initiatives and projects will not be completed according to plan or will not deliver the expected results, and that the goals they are intended to achieve will not be adequately translated into the project planning, monitoring or execution processes. In order to minimise the risks related to the execution of strategic projects at the Grupa Azoty Group, internal procedures have been put in place to define and govern the preparation and execution of investment projects. Oversight has been introduced over strategic projects and their reviewed assumptions (business effects, budgets, KPIs, schedules, division of responsibilities), and regular updates are provided on projects status. 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 associated with new legal requirements relating to production processes, including environmental regulations

Risk associated with the implementation of the Industrial Emissions Directive (IED)

Following the implementation of the Industrial Emissions Directive (IED) in January 2014, the Grupa Azoty Group will be required to bring its production facilities to compliance with the new regulations. The companies 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 new regulations are included in Group companies' 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 CO₂ emissions are not covered by the free allowances, the Grupa Azoty Group may need to incur additional capital expenditure on projects designed to reduce the emissions of nitrous oxide and carbon dioxide. The volume of carbon dioxide emissions is related to the energy intensity of production processes. In order to mitigate this risk, the Group companies have been taking steps to reduce the energy intensity of processes, and thus greenhouse gas emissions. In the case of Grupa Azoty KĘDZIERZYN, it meant reducing nitrous oxide emissions from its nitric acid unit.

Risk associated with BAT conclusions

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

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

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

Risk of deteriorated supply-demand balance

In the Agro Fertilizers segment, the Group identifies risks related to:

- Higher imports of nitrogen and compound fertilizers manufactured from cheaper raw materials;
- Putting in operation significant new fertilizer production capacities, urea production capacities in particular (China, USA, Algeria), whose oversupply periodically causes changes in the prices of other nitrogen fertilizers;
- Maintenance of low and stable export duties on fertilizers from China – a slump in demand in China triggers large inflows of Chinese fertilizers to other markets. With the Indian government withdrawing its subsidies and other Asian countries which are buffer markets for Chinese exports reducing their purchases, the flow of Chinese products is re-directed to other markets, including Europe;
- Potential risk of sanctions on Iran being lifted, which might trigger an inflow of Iranian urea to the EU markets;
- Mergers and acquisitions of chemical companies, which might translate into their being able to exert more pressure on the EU fertilizer market;
- Competition growing stronger as new products are marketed and more effective technologies applied.

In order to mitigate the identified risks and to strengthen and consolidate its leadership in the segment, the Grupa Azoty Group has been taking steps to optimise the production costs and broaden the portfolio of products and services offered.

Measures taken by the Group to strengthen its competitive advantages in the fertilizer segment include:

- implementation of the Group's updated distribution strategy,
- implementation of projects designed to improve the efficiency of production processes,
- search for more competitively priced sources of natural gas supplies,
- strengthening the Group's market position through acquisitions and placement of new products in the market,
- taking active part in the process of consolidation of the chemical industry,
- initiation of anti-dumping proceedings,
- active participation in the work of Fertilizers Europe,
- cooperation with universities and research institutes,
- supporting agricultural producers by providing them with access to state-of-the-art fertilizing and production solutions.

In the Plastics segment, the Group identifies risks related to:

- Increase in caprolactam and polyamide production capacities in China, which has generated oversupply since 2014, This results in lower exports from the EU and oversupply of polyamide in Europe;
- Planned expansion of polyamide production capacities on the already saturated EU market,
- Possible inflow of Asian materials to Europe as a result of the huge production capacity potential of Asian companies,
- Mergers and acquisitions of chemical companies, which might translate into their being able to exert more pressure on the EU market,

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

- Construction of a new PA6 production unit in Tarnów, which will fully balance caprolactam production within the Grupa Azoty Group;
- The Parent is finalising the details of the project to construct a new Modified Plastics Facility in Tarnów, within the Kraków Special Economic Zone, that will help further expand the product chain;
- Continuation of the policy to diversify sales of caprolactam;
- Preparation of a long-term caprolactam manufacturing cost reduction programme;
- Leveraging the synergies between Tarnów's and Puławy's installations following from the integration of the companies' production and sales potential;
- Meeting customer expectations by offering products tailored to specific customer needs;
- Efforts 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;
- Grupa Azoty's international activity as a member of European industry organisations, such as CEFIC, Plastics Europe, and identification of any possible threats early enough to take steps necessary to mitigate their potential adverse consequences.

In the Chemicals segment, the Group identifies risks related to:

- Excessive titanium white global production capacities relative to lower demand caused by the economic slowdown;
- Higher supply of OXO alcohols on balanced European markets, driven by heavy inflow of cheaper alcohols, especially from the Russian market;
- Import of plasticisers to the balanced and highly competitive EU market, on which a wide range of plasticisers are available – the risk related to imports of non-phthalate plasticizers from the Korean and Turkish markets is particularly significant.

Grupa Azoty protects its business against those risks:

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

Currency risk

The Grupa Azoty Group has a positive exposure to the euro and the US dollar which is hedged based on on-going monitoring of movements in the euro and US dollar exchange rates. The Group companies hedge their currency exposures using currency forwards and natural hedging.

In connection with the implementation, in 2015, of the new centralised financing, the Grupa Azoty Group 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 Grupa Azoty Group has established the Risk Committee, which analyses and determines the consolidated currency exposure of the Group and its leading 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 the Group applies enable it to limit the existing risk by using selected hedging instruments and strategies, based on long-term and one-year currency exposure plans and their updates to account for quarterly operational plans and short-term projection of currency flows and currency expenditures, and based on the transactions already registered in the financial and accounting system. However, these methods do not eliminate that risk completely. In addition, currency risk may affect the domestic nitrate fertilizer market in the context of bilateral trade with other EU countries. Strong fluctuations in exchange rates may affect the Group's business, financial standing or performance.

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

The Group has in place a monitoring system for emissions covered by the EU ETS. It also performs ongoing balancing of greenhouse gas emissions. The Group monitors on an ongoing basis its actual emissions and the market prices of emission allowances and takes appropriate steps in response to their fluctuations. The Group may be forced to incur higher-than-expected costs if it reports a deficit in emission allowances as at the end of the year and faces an increased demand for EUAs on the market.

The Group mitigates the risk of an adverse effect of EUA prices on the carbon market by averaging the price of emission units purchased on the SPOT market and by purchasing CO₂ emission allowances in financial derivatives with physical delivery in the future in accordance with the Purchase Strategy in force from time to time. The Group effectively implements its strategy of rolling purchases of emission allowances, which is designed to ensure full coverage of any deficit of emission allowances that should be allocated for a given year and subsequently redeemed, with exercise prices not higher than projected. The Group has appointed the EU ETS Management Committee, including representatives of all key Group companies. Its main objective is to supervise a joint model for managing CO₂ emission allowances at the Group companies, in particular the CO₂ Emissions Trading Strategy, and subsequently the implementation of the Emissions Trading Strategy binding on all Group companies. In order to mitigate the risks connected with higher costs generated by the ETS (higher prices of CO₂ emission units) and thus higher prices of electricity, the Group is implementing a project to build its own 400 MW gas-fired power plant in Puławy. Gas-fired generation is in line with the European Union's climate policy and in the future it will substantially reduce the Group's costs of CO₂ emissions.

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

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

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

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

6.2. 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 Parent shares, holdings of Parent shares by supervisory and management personnel, and interests of such persons in the Parent's related entities

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

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

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

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

Grupa Azoty 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 is PLN 5.

The Parent's other supervisory personnel did not hold any Parent shares as at December 31st 2015 and as at the date of this Report.

Shares held by the Parent's management personnel in related parties 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 Kaptucha	Grupa Azoty PUŁAWY	2	PLN 10

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

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

The Parent holds no treasury shares. The Grupa Azoty Group companies hold no shares in the Parent.

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

	Number of shares
Management Board	
Artur Maciejczyk - Grupa Azoty PKCh Sp. z o.o.	390
Jerzy Woliński - Grupa Azoty PKCh Sp. z o.o.	128
Supervisory Board	
Małgorzata Malec - Grupa Azoty ATT Polymers GmbH	360
Jerzy Koziara - Grupa Azoty KĘDZIERZYN, Grupa Azoty PUŁAWY	639

7.3. Parent shares

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

The Parent'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. Parent 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, the Parent has been a constituent of the RESPECT index managed by the Warsaw Stock Exchange. The Parent has been appreciated for its engagement in applying corporate social responsibility principles and having highest standards in corporate governance, corporate disclosure discipline, and investor relations, as well as environmental, social, and employee matters. In December 2015, the Parent 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, the Parent became a constituent of the MSCI Emerging Markets index. MSCI indices have been published by Morgan Stanley since 1970.

On March 4th 2015, the Parent 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 Parent 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 ^{*)}	9,820,352	9.90	9,820,352	9.90
Opansa Enterprises Limited ^{*)}	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
Total	99,195,484	100.00	99,195,484	100.00

^{*)} 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 Parent was not notified of any changes in major holdings of its shares.

Dividend policy

The Parent's dividend policy is consistent with the Strategy for 2014-2020. Distributions to shareholders depend on the Parent's earnings and financial position. The Management Board, recommending dividend payouts equal to 40-60% of the Parent'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 Parent in this respect will take account of a number of factors concerning both the Company 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

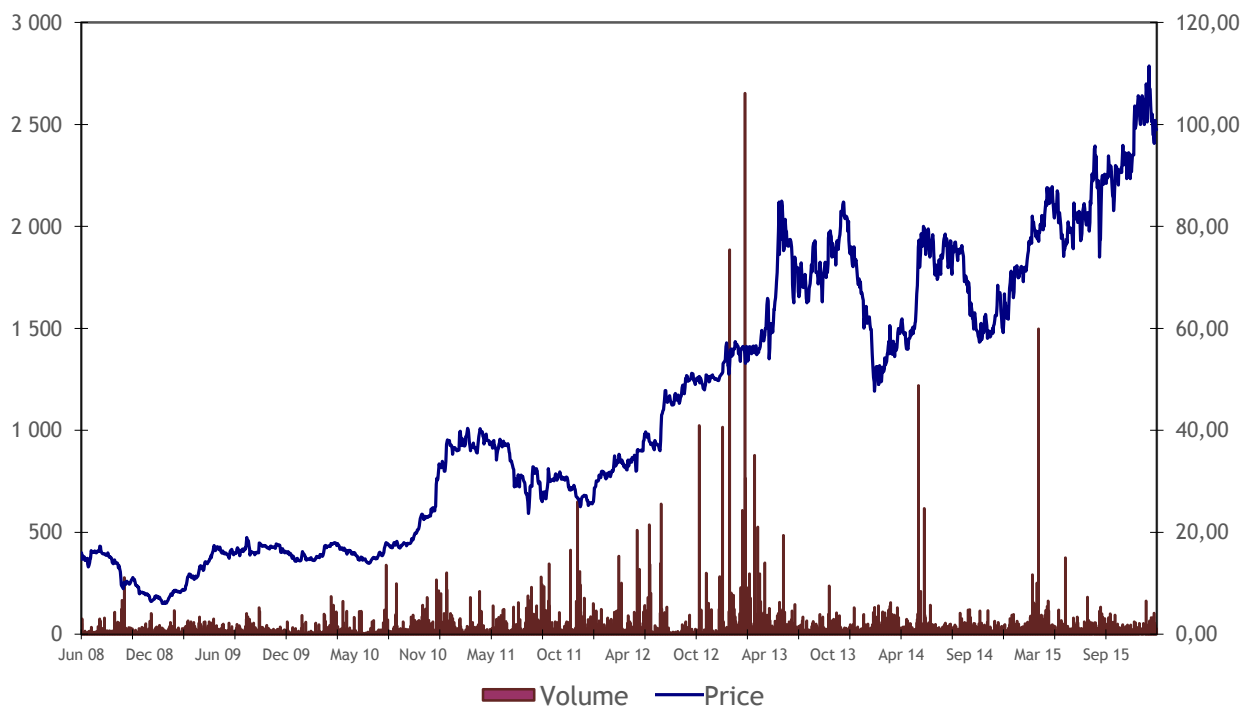
Performance of Parent shares

The Parent 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 the Parent 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 Parent 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.

Parent 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 the Parent 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
2015-06-30	sell ▶	PLN 68.00 ▲	PLN 82.61	Societe Generale
2015-06-22	buy ▲	PLN 93.90 ▲	PLN 75.61	IPOPEMA

Date	Recommendation	Target price (PLN)	Price at recommendation date (PLN)	Broker
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, the Parent provides all market participants, in particular current and prospective shareholders, with exhaustive and reliable information on events taking place at the Parent and the Grupa Azoty Group. In its communication with investors, the Parent goes above and beyond the statutory disclosure requirements. The 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, the Parent makes every effort to ensure that the published information is disseminated among as many recipients as possible. To this end, Grupa Azoty publishes its key announcements also in social media. The corporate website is a key tool for communicating with the capital market, featuring the Parent's current and periodic reports, important information about AGMs and EGMs, analyst recommendations and financial results. The website, with its dedicated section for investors, was upgraded to provide more precise capital market information in a more user-friendly manner. The content and presentation quality of the IR section, as well as the 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 Parent'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.

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

The Parent 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, the Parent 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 Parent and the place where the text of the code is available to the public

Having declared compliance with the highest capital market communication standards and principles of corporate governance, in 2015 the Parent 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 and on the website of the Company at http://tarnow.grupaazoty.com/files/4fbe6653/gpw_dobre_praktyki_grupa_azoty_2016.pdf.

8.2. Information on the Parent's non-compliance, if any, with the corporate governance standards and reasons for such non-compliance

Since the flotation of its shares on the WSE in 2008, the Parent's aim has been to observe best corporate governance practices, which was expressed in the declaration of the Parent's Management Board contained in the 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 ^{*)}	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
	99,195,484	100.00	99,195,484	100.00

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

including:

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

On April 24th 2015, the Management Board of the Parent 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 Parent 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 Parent shares, representing approximately 9.527% of the Parent's share capital and carrying 9,450,000 voting rights (approximately 9.527% of total voting rights) at the parent'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 Parent shares.

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

Opansa notified the Parent that none of its subsidiaries held any Parent 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 Parent'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,
- 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 Parent 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 Parent shares, representing approximately 9.527% of the Parent's share capital and carrying 9,450,000 voting rights (approximately 9.527% of total voting rights) at the Parent'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 Parent shares.

Following the transaction, Opansa held directly 9,450,000 Parent shares, representing approximately 9.527% of the Parent's share capital and carrying 9,450,000 voting rights (approximately 9.527% of total voting rights) at the Parent's 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 Nicosia, Cyprus ('Rainbee'), 19,841,700 Parent shares, representing approximately 20.0026% of the Parent's share capital and carrying 19,841,700 voting rights (approximately 20.0026% of total voting rights) at the Parent's General Meeting, of which Norica Holding S.à r.l.:
 - holds directly 571,348 Parent shares, representing approximately 0.576% of the Parent's share capital and carrying 571,348 voting rights (approximately 0.576% of total voting rights) at the Parent's General Meeting; and
 - holds indirectly, through Opansa, 9,450,000 Parent shares, representing approximately 9.527% of the Parent's share capital and carrying 9,450,000 voting rights (approximately 9.527% of total voting rights) at the Parent's General Meeting;
 - holds indirectly, through Rainbee, 9,820,352 Parent shares, representing approximately 9.8999% of the Parent's share capital and carrying 9,820,352 voting rights (approximately 9.8999% of total voting rights) at the Parent's General Meeting.
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 Parent, representing approximately 20.0026% of its share capital and carrying 19,841,700 voting rights (approximately

20.0026% of total voting rights) at the Parent's General Meeting.

3. Acron, TrustService's parent, holds indirectly through its indirect subsidiaries Norica, Opansa and Rainbee, 19,841,700 Parent shares, representing approximately 20.0026% of the Parent's share capital and carrying 19,841,700 voting rights (approximately 20.0026% of total voting rights) at the Parent's General Meeting.
4. Subero, Acron's parent, holds indirectly through its indirect subsidiaries Norica, Opansa and Rainbee, 19,841,700 Parent shares, representing approximately 20.0026% of the Parent's share capital and carrying 19,841,700 voting rights (approximately 20.0026% of total voting rights) at the Parent's General Meeting.
5. Mr Kantor, Subero's parent, holds indirectly through its indirect subsidiaries Norica, Opansa and Rainbee, 19,841,700 shares in the Parent, representing approximately 20.0026% of its share capital and carrying 19,841,700 voting rights (approximately 20.0026% of total voting rights) at the Parent's General Meeting.

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 the Parent, whether directly or indirectly, by Norica, TrustService, Acron, Subero and Mr Kantor, did not change and still totals 19,841,700 Parent shares, representing approximately 20.0026% of the Parent's share capital and carrying 19,841,700 voting rights (approximately 20.0026% of total voting rights) at the Parent's General Meeting (see Parent's Current Report No. 64/2014 of November 1st 2014).

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

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

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

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

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

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

The Parent 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 the Parent in order to increase their shareholdings and number of voting rights or dispose of the Parent shares in order to reduce their shareholdings and number of voting rights in the Parent.

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 ^{*)}	9,820,352	9.90	9,820,352	9.90
Opansa Enterprises Limited ^{*)}	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
Total	99,195,484	100.00	99,195,484	100.00

^{*)} Direct subsidiaries of Norica Holding S.à r.l.

On October 5th 2015, the Parent's Management Board received a notification of the number of Parent 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 (jointly: "TFI PZU Funds").

TFI PZU S.A. stated that following settlement on October 2nd 2015 of the sale of 8,186,448 Parent shares from the portfolio of PZU Fundusz Inwestycyjny Zamknięty Aktywów Niepublicznych BIS 2 and purchase of 8,186,448 Parent 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 Parent'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 Parent 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 Parent'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 ^{*)}	9,820,352	9.90	9,820,352	9.90
Opansa Enterprises Limited ^{*)}	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
Total	99,195,484	100.00	99,195,484	100.00

^{*)} Direct subsidiaries of Norica Holding S.à r.l.

In the period from October 5th 2015 to the date of this report, the Parent 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 Parent's Articles of Association, the State Treasury of Poland, as a shareholder, has an individual right to appoint and remove one member of the Supervisory Board. Furthermore, in accordance with Art. 43.1.3 and 43.1.4 of the Parent's Articles of Association, the General Meeting is convened by the Management Board:

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

Pursuant to Art. 45.4 of the Parent's Articles of Association governing the placing of matters on the agenda of the next General Meeting by the shareholders, a shareholder or shareholders representing

at least one-twentieth of the Company's share capital may request that certain matters be placed on the agenda of the next General Meeting. The same right is held by the State Treasury as the Company's shareholder, irrespective of its stake in the share capital.

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

8.6. Restrictions on voting rights

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

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

"Art. 47.3. As long as the State Treasury of Poland or its subsidiaries hold shares in the Company carrying at least one fifth of the total voting rights, the other shareholders' voting rights will be limited in such a manner that no shareholder may exercise more than one fifth of total voting rights at the General Meeting existing on the day of the General Meeting. The limitation on the voting rights referred to in the preceding sentence shall not apply to the State Treasury or any of its subsidiaries. For the purposes of this Art. 47.3, the exercise of voting rights by a subsidiary shall be deemed the exercise of voting rights by its parent as defined in the Act on Public Offering, Conditions Governing the Introduction of Financial Instruments to Organised Trading, and Public Companies of July 29th 2005 (the „\”Public Offering Act”), and the terms “parent” and “subsidiary” shall include any entity whose voting rights attached to shares held, directly or indirectly, in the Company are aggregated with the voting rights of another entity or entities, in accordance with the Public Offering Act, in connection with the holding, disposal or acquisition of major holdings in the Company. A shareholder whose voting rights are subject to the limitation shall in any case retain the right to cast at least one vote.”

8.7. Restrictions on the transferability of securities

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

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

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

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

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

Supervisory Board

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

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

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

The General Meeting appoints the Chairperson of the Supervisory Board.

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

Power to make decisions to issue or buy back shares

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

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

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

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

8.10. Operation of the General Meeting

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

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

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

In particular, the General Meeting has the authority to:

- Review and approve the Directors' Report on the Parent's operations, the financial statements for the previous financial year, the consolidated financial statements and the Directors' Report on the Group's operations, if prepared by the Parent, as well as the annual written report of the Supervisory Board, and to grant discharge to members of the Parent's governing bodies in respect of their duties,
- Adopt resolutions on distribution of profit or coverage of loss,
- Adopt the Rules of Procedure for the General Meeting,
- Amend the Parent's Articles of Association,
- Change the Parent's business profile,
- Approve the disposal or lease of, or creation of limited property rights in, the Company's business or its organised part,
- Appoint and remove members of the Supervisory Board (subject to Art.16.2 and Art. 36 of the Articles of Association), and determine the remuneration amounts for members of the Supervisory Board,
- Increase or decrease the Company's share capital,
- Adopt resolutions on issue of notes, including notes convertible into shares,
- Merge, demerge and transform the Parent,
- Dissolve and liquidate the Parent,
- Approve buyback of Parent shares for retirement and define the conditions for share retirement,
- Adopt other resolutions as provided for in applicable laws or the Articles of Association.

Shareholder rights and their execution

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

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

Parent's 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 Parent'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 Kopec, the Management Board member elected by employees, expired upon commencement of the Board's 10th term of office. Thus, the Supervisory Board decided to initiate 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 Kopec as their candidate and representative on the Management Board.

On February 26th 2015, the Supervisory Board passed a resolution to appoint Mr Kopec 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 Kapłucha, 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 Parent'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 at the Parent, 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 Kapłucha - 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 Kopec - 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 Group's Council, overseeing the implementation of the Parent'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 Parent'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 Parent, responsible for strategy and development, integration of production processes, plastics and organic synthesis, strategic feedstock procurement, developing and implementing the Parent's and the Group's strategies, overseeing strategic procurement at the Parent 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 in respect of managing the Parent,
- 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 in respect of managing the Parent.

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 Parent's Articles of Association (Article 33),
- the Rules of Procedure for the Parent'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 Article 33 of the Parent's Articles of Association.

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

- Jacek 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,
- review of selected economic events relevant to the Parent'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 at the Parent

The Parent'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 the Parent 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 Parent 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 Parent 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).

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 Parent's Supervisory Board members

	Remuneration paid			Remuneration potentially due
	fixed remuneration components	variable remuneration components	Total	
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 Parent's Management Board members

	Remuneration paid			Remuneration potentially due*
	fixed remuneration components	variable remuneration components	Total	
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 Kopeć	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 Parent's management and supervisory personnel for holding office at the Group's subsidiaries

	Remuneration paid			Remuneration potentially due*
	fixed remuneration components	variable remuneration components	Total	
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

The Grupa Azoty Group is Poland's largest chemical group, formed through consolidation of the major players of the Polish chemical sector. Companies of the Grupa Azoty Group appreciate the potential of the cities and towns where they are based and provide ongoing support for their development. Any matters related to corporate social responsibility and cooperation with stakeholders in their environment are given strategic importance and viewed from a long-term perspective.

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. Working within this framework, the individual Group companies regularly undertake multifaceted social and sponsoring projects designed to have a long-term effect, dedicated primarily to supporting local initiatives and serving local residents.

All 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. These documents define the areas of social and sponsorship initiatives of interest to the Group, and specify the types of charitable activities in which the Group companies may engage.

In accordance with the above policies, companies of the Grupa Azoty Group pursue social and sponsorship projects involving:

- Investments benefiting the local community, solving social issues, charitable assistance in the form of cash and non-cash donations and services, addressed directly to the communities or to charitable organisations, NGOs and non-profit organisations,
- Local initiatives likely to attract supra-regional or even international media interest.

In addition, the Parent, acting for and on behalf of the entire Group, engages in projects of nationwide and international dimension, reaching beyond the local framework.

Thanks to its long-standing commitment, demonstrated through the provision of financial or material support, the Grupa Azoty Group has become a well-known and highly appreciated partner for:

- sports and cultural events,
- educational, scientific and medical institutions,
- pro-environmental social campaigns.

9. Other material information and events

9.1. Qualified auditor

Parent

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.

The remuneration of KPMG Audyt Sp. z o.o. for services rendered to the Parent

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
	543	399

The remuneration for the audit of other companies of the Grupa Azoty Group is paid pursuant to separate agreements executed between the qualified auditor of financial statements and each company.

The remuneration of KPMG Audyt Sp. z o.o. for services rendered to companies of the Grupa Azoty Group (without the Parent)

Item	2015	2014
Audit of the full-year separate and consolidated financial statements of the company and audit or review of consolidation package	849	975
Review of the half-year separate and consolidated financial statements of the company and review of consolidation package	178	212
Other services	239	298
	1,266	1,485

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 in the Parent. 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 Parent 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 Parent participated in yet another evaluation of corporate social responsibility in public companies and was once again 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.

The Parent 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,
- 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 Parent updated, and adapted to the current legal requirements, the Safety Report – General Section with analyses of process risk for units posing a major risk of serious chemical plant failure, Internal Rescue Operation Plan, Industrial Accident Prevention Programme and High Risk Establishment Notification. 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, the 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. They cover hazards to humans and the environment.

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 Grupa Azoty 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. It is expected that 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 as safely and reliably as possible.

Responsible growth

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

In 2015, at the Parent, main work in this area 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, the Grupa Azoty Group implemented a number of investment projects designed to better protect the natural environment:

Parent

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.

Grupa Azoty KĘDZIERZYN

The key environmental projects in 2015 include the construction of a new CHP plant - Phase 1 and upgrade of the urea unit.

The construction of a new CHP Plant - Phase 1 is designed to restore the plant's heat and electricity generation capacity and increase its output to satisfy demand for heat and electricity, based on solutions that ensure compliance with the growing environmental requirements. The upgrade of the urea unit aims to reduce the unit's environmental impact, create additional production capacity and increase process efficiency.

Completion of the projects is planned for 2016.

Grupa Azoty POLICE

The key environmental initiatives in 2015 include the construction of a flue gas treatment unit and upgrade of the EC II CHP plant as well as upgrade of the floodbank around the phosphogypsum landfill site.

The aim of construction of the flue gas treatment unit and upgrade of the EC II CHP plant is to bring the co-generation operations in line with the NO_x, SO_x and particulate matter emission requirements of Directive 2010/75/EU. The purpose of the upgrade of the floodbank around the phosphogypsum landfill site is to increase the floodbank's leak-tightness and to better secure the phosphogypsum landfill site from external waters. The projects will improve environmental safety and ensure coherence with the surrounding area.

Completion of the projects is planned for 2016.

Grupa Azoty PUŁAWY

The environmental projects completed in 2015 were the construction of NO_x reduction units at two boilers of the company's CHP plant and modernisation of the reverse osmosis unit.

The NO_x reduction units helped to reduce NO_x emissions from the K4 and K5 boilers.

The modernisation of the reverse osmosis unit reduced the discharge of ammonia and wastewater containing ammonium nitrate to the industrial drainage system.

Both projects were completed in 2015.

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 Parent 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.

CO₂ 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 CO₂.

Supplementary information to environmental performance in subsidiaries

Grupa Azoty PUŁAWY

Responsible Care Programme

In Poland, the Responsible Care Programme® is known as “Odpowiedzialność i Troska”® and its local implementation is supervised by the Polish Chamber of Chemical Industry. Grupa Azoty PUŁAWY joined the Programme in 1995 as the fifth Polish company.

Water and wastewater management

In 2015, the Company continued efforts to reduce the amount of COD and nitrogen compounds discharged to the Wisła river. In Q3 2015, pilot tests were run on wastewater discharged by the Ammonium Nitrate and Nitric Acid Divisions and in Q4 on wastewater generated by the water preparation station. Final reports from these tests will be presented to the Company in Q1 2016.

Solid waste management

In 2015, Grupa Azoty PUŁAWY complied with the obligations stipulated in the Act on Managing Packaging and Packaging Waste of June 13th 2013 pursuant to:

- Agreements signed with Organizacja Odzysku – as regards reclaiming and recycling of packaging waste and carrying out public educational campaigns,
- An agreement between economic self-government organisations with the Province Marshal – as regards hazardous substances packaging.

Grupa Azoty KĘDZIERZYN

The company continued the efforts to ensure compliance with new environmental protection requirements.

The 2014 Annual Reports, pertaining to the emission of greenhouse gases from chemical units and the CHP plant, were successfully reviewed.

As regards environmental protection efforts:

- Work on improvement of the environmental protection management system was continued; the system documentation (including the List of Material Aspects) was updated;
- Detailed objectives were implemented, and internal and external audits with service providers were performed;
- The directions outlined in the company's Policy towards respect for the natural environment, including pollution prevention and constant improvement of the state of the environment, were followed;
- New General Goals of the Environmental Protection Management System were defined and approved on December 31 2015;
- As part of the activities performed by the Grupa Azoty Group, the company actively participated in the work of teams for the integration of the environmental protection management system and the Responsible Care Program management system, resulting in the implementation of common corporate solution in these areas.

Grupa Azoty POLICE

Following the company's long-term efforts to change regulations on the criteria for storage of waste, September 1st 2015 saw the announcement of the Minister of Economy's Regulation on admission of waste for storage at landfill sites, dated July 16th 2015. The Regulation, incorporating provisions requested by the company, abolishes restrictions pertaining to the storage of iron (ii) sulfate on dedicated landfills.

The company has fulfilled the obligation to register all substances it manufactures. The company has also prepared and published Safety Data Sheets (or equivalent documents) conforming to REACH Regulation requirements for all marketed products and updates them whenever required.

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 Parent's Management Board concerning achievement of such forecasts is not presented.

Litigation

No proceedings are pending against the Grupa Azoty Group companies concerning any debt or liabilities whose value would equal or exceed 10% of Grupa Azoty S.A.'s equity.

The total value of all proceedings involving the Group companies does not exceed 10% of Grupa Azoty S.A.'s equity.

Significant related-party transactions

In 2015, the Group did not execute any related-party transactions other 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.

Parent's branches

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

Shares, share issues

In 2015, the Parent 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 100 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