



Directors' Report  
on the Operations of Grupa Azoty S.A.  
and the Grupa Azoty Group  
for the 12 months ended  
December 31st 2017

This Directors' Report presents the key events which occurred in the 12 months ended December 31st 2017 at the Grupa Azoty Group and Grupa Azoty S.A., the Group's Parent. This report includes all information which is essential for the assessment of the Group's and the Parent's financial condition and assets, including results of their operations, as well as a description of relevant risks and threats. It also presents financial and non-financial indicators, if material for the assessment of the Group's and the Parent's condition, as well as additional explanations on the amounts presented in the consolidated and separate financial statements.

## Contents

|   |    |
|---|----|
| 1. General information on the Group and its Parent .....  | 5  |
| 1.1. Organisation and structure .....   | 5  |
| 1.2. Subsidiaries' organisational or equity ties .....  | 9  |
| 1.3. Changes in the organisational structure .....  | 10 |
| 2. Management policy .....  | 14 |
| 2.1. Parent's organisational chart .....  | 14 |
| 2.2. Workforce .....  | 15 |
| 3. Business overview .....  | 17 |
| 3.1. Business segments .....  | 17 |
| 3.2. Overview of key products .....   | 18 |
| 3.3. Sales markets and procurement of raw materials, merchandise and services .....   | 20 |
| 3.4. Significant agreements .....   | 23 |
| 3.5. Significant events .....   | 27 |
| 4. Growth strategy and policy .....   | 31 |
| 4.1. Strategy and growth directions .....   | 31 |
| 4.2. Growth prospects and market strategy .....   | 33 |
| 4.3. Key investments in Poland and abroad .....   | 35 |
| 4.4. Equity investments .....   | 38 |
| 4.5. Feasibility of investment plans .....  | 38 |
| 4.6. Significant R&D achievements .....   | 38 |
| 5. Financial condition of the Group .....   | 40 |
| 5.1. Assessment of factors and one-off events having a material impact on the Group's operations and financial performance .....  | 40 |
| 5.2. Market overview .....  | 43 |
| 5.3. Key financial and economic data .....  | 54 |
| 5.3.1. Consolidated financial information .....   | 54 |
| 5.3.2. Segments' consolidated financial information .....   | 55 |
| 5.3.3. Structure of consolidated operating expenses .....   | 57 |
| 5.3.4. Structure of consolidated assets, equity and liabilities .....   | 58 |
| 5.3.5. Consolidated financial ratios .....  | 59 |
| 5.3.6. Separate financial data .....  | 61 |
| 5.3.7. Separate financial data by segment .....   | 61 |
| 5.3.8. Structure of separate operating expenses .....   | 63 |
| 5.3.9. Structure of separate assets, equity and liabilities .....   | 64 |
| 5.3.10. Separate financial ratios .....   | 65 |
| 5.4. Management of capital and assets .....   | 67 |
| 5.5. Bank deposits .....  | 67 |
| 5.6. Credit facility agreements executed or terminated .....  | 68 |
| 5.7. Loans taken out, terminated or advanced .....  | 69 |
| 5.8. Guarantees and sureties, including guarantees and sureties issued to and received from related parties .....   | 71 |
| 5.9. Material off-balance-sheet items .....   | 74 |
| 5.10. Financial instruments - risk management policy and risk management instruments, objectives and methods .....  | 74 |
| 5.11. Expected financial condition .....  | 77 |
| 6. Risk, threats and growth prospects .....   | 78 |
| 6.1. Significant risk factors and threats .....   | 78 |
| 6.2. Significant external and internal growth factors .....   | 84 |
| 7. Shares and shareholding structure .....  | 85 |
| 7.1. Total number and par value of Grupa Azoty shares, holdings of the shares by supervisory and management personnel, and interests of such persons in the Parent's related entities ..... | 85 |
| 7.2. Treasury shares held by the Parent, the Group companies and persons acting on their behalf .....   | 86 |
| 7.3. Grupa Azoty shares .....   | 86 |

|         |  |     |
|---------|--|-----|
| 8.      | Statement of compliance with corporate governance standards .....  | 91  |
| 8.1.    | Corporate governance code applicable to the Parent and the place where the text of the code is available to the public.....  | 91  |
| 8.2.    | Information on the Parent's non-compliance, if any, with the corporate governance standards and reasons for such non-compliance .....  | 91  |
| 8.3.    | Internal control and risk management systems.....  | 96  |
| 8.4.    | Management standards and systems.....  | 97  |
| 8.5.    | Shareholding structure .....   | 99  |
| 8.6.    | Special control powers of securities holders .....   | 100 |
| 8.7.    | Rules governing amendments to the Parent's Articles of Association .....   | 100 |
| 8.8.    | Restrictions on voting rights .....  | 100 |
| 8.9.    | Restrictions on the transferability of securities .....  | 101 |
| 8.10.   | 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..... | 101 |
| 8.11.   | Operation of the General Meeting .....   | 102 |
| 8.12.   | Composition and operation of the Company's management and supervisory bodies .....   | 103 |
| 8.13.   | Diversity policy .....   | 114 |
| 8.14.   | Remuneration policy .....  | 115 |
| 8.15.   | Sponsorship, charitable or similar activities .....  | 117 |
| 8.16.   | Report on entertainment expenses, legal costs, marketing costs, public relations and social communication expenses, and management consultancy fees .....                          | 123 |
| 8.16.1. | Introduction.....  | 123 |
| 8.16.2. | Expenses.....  | 123 |
| 9.      | Other material information and events.....   | 124 |
| 9.1.    | Qualified auditor .....  | 124 |
| 9.2.    | Environmental performance .....  | 125 |
| 10.     | Non-financial statement .....  | 132 |
| 11.     | Supplementary information .....  | 132 |

## 1. General information on the Group and its Parent

### 1.1. Organisation and structure

#### Parent

Grupa Azoty S.A. is the Parent of the Group. Its principal business activities include manufacturing, trading in and service activities related to nitrogen fertilizers, engineering plastics and intermediates. The Company operates its own research facilities. It concentrates both on research into new products and technologies, and on advancing existing products.

The Parent, Grupa Azoty S.A., 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, FTSE Emerging Markets, and FTSE4Good Emerging Index.

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

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

The Grupa Azoty Group is one of Central Europe's major 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 group 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.

As at December 31st 2017, the Grupa Azoty Group (the "Group") comprised Grupa Azoty S.A. (the Parent) and the following nine subsidiaries:

- 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.,

The Parent and the Group companies were incorporated for unlimited period.

#### Parent's subsidiaries

##### Grupa Azoty Zakłady Azotowe Puławy S.A.

The company has its registered office in Puławy. 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 manufacturing of nitrogen fertilizers and is one of the largest melamine manufacturers in the world.

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

The company's registered office is located in Kędzierzyn-Koźle. 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 business pillars are nitrogen fertilizers and OXO products (OXO alcohols and plasticisers).

**Grupa Azoty Zakłady Chemiczne Police Spółka Akcyjna**

The company's registered office is located in Police. 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 manufactures polyamide 6 (PA6).

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

The company's registered office is located in Tarnów. 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, commissioning and operation of process units.

**Grupa Azoty Koltar Spółka z ograniczoną odpowiedzialnością**

The company's registered office is located in Tarnów. 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 nationwide. It is one of the few organisations in Poland to hold licences required to perform comprehensive repairs of rail car chassis and tank cars used in the transport of 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 principal business is research and development in technical science.

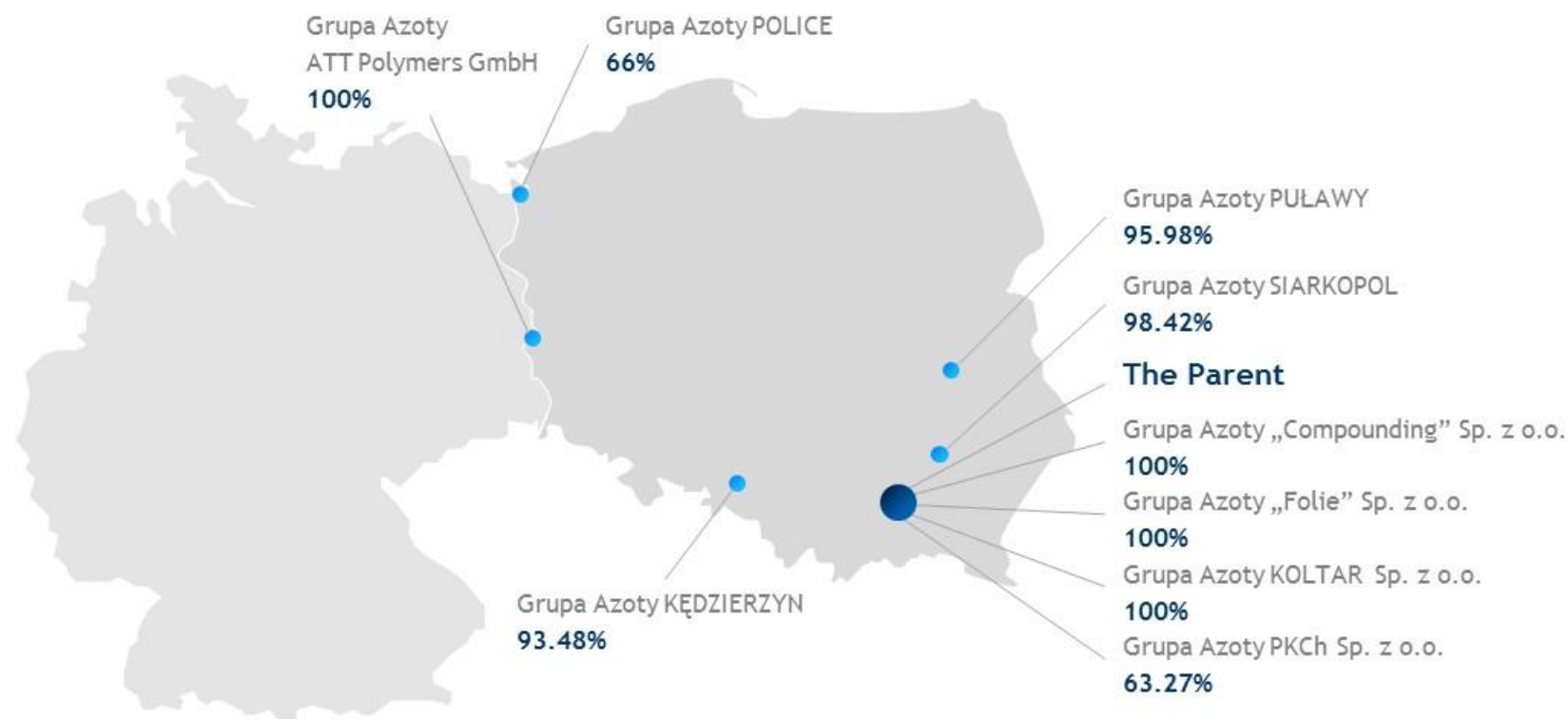
**Grupa Azoty Compounding Spółka z ograniczoną odpowiedzialnością**

The company's registered office is located in Tarnów. Its business model is based on a portfolio of specialised engineering plastics manufactured through the compounding of plastics, with the use of innovative technological solutions.

**Parent's equity interests in subsidiaries as at December 31st 2017**

| <i>(in relevant currency)</i>      |  |                      |                                  |
|------------------------------------|--|----------------------|----------------------------------|
| <b>Company</b>                     | <b>Registered office/address</b>                               | <b>Share capital</b> | <b>% of shares held directly</b> |
| Grupa Azoty ATT Polymers GmbH      | Forster Straße 72<br>03172 Guben, Germany                      | 9,000,000 EUR        | 100.00                           |
| Grupa Azoty Compounding Sp. z o.o. | ul. Chemiczna 118<br>33-101 Tarnów                             | 1,105,000 PLN        | 100.00                           |
| Grupa Azoty Folie Sp. z o.o.       | ul. Chemiczna 118<br>33-101 Tarnów                             | 5,500,000 PLN        | 100.00                           |
| Grupa Azoty KOLTAR Sp. z o.o.      | ul. Kwiatkowskiego 8<br>33-101 Tarnów                          | 32,760,000 PLN       | 100.00                           |
| Grupa Azoty SIARKOPOL              | Grzybów<br>28-200 Staszów                                      | 55,000,000 PLN       | 99.33                            |
| Grupa Azoty PUŁAWY                 | al. Tysiąclecia<br>Państwa Polskiego 13<br>24-110 Puławy       | 191,150,000 PLN      | 95.98                            |
| Grupa Azoty KĘDZIERZYN             | ul. Mostowa 30 A<br>skr. poczt. 163<br>47-220 Kędzierzyn-Koźle | 285,064,300 PLN      | 93.48                            |
| Grupa Azoty POLICE                 | ul. Kuźnicka 1<br>72-010 Police                                | 750,000,000 PLN      | 66.00                            |
| Grupa Azoty PKCh Sp. z o.o.        | ul. Kwiatkowskiego 7<br>33-101 Tarnów                          | 85,630,550 PLN       | 63.27                            |

# The Parent and its subsidiaries as at December 31st 2017



Source: Source: Company data.



## 1.2. Subsidiaries' organisational or equity ties

Equity interests held by the subsidiaries in other entities of the Group as at December 31st 2017

### Grupa Azoty PUŁAWY

| Company   | Ownership interest (%) | Share capital      |
|---|------------------------|--------------------|
| Elektrownia Puławy Sp. z o.o.                           | 100%                   | 92,148             |
| Agrochem Puławy Sp. z o.o.                              | 100%                   | 50,000             |
| Agrochem Sp. z o.o.                                     | 100%                   | 20,000             |
| 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.                            | 94.32%                 | 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              |
| Technochimserwis S.A. (closed joint-stock company)      | 25%                    | RUB 800 (thousand) |

### Grupa Azoty POLICE

| Company  | Ownership interest (%) | Share capital          |
|--|------------------------|------------------------|
| 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. w likwidacji (in liquidation)                    | 99.99                  | XOF 132,000 (thousand) |
| Zarząd Morskiego Portu Police Sp. z o.o.                                 | 99.91                  | 32,642                 |
| PDH Polska S.A.  | 84.54                  | 180,000                |
| African Investment Group S.A.  | 54.90                  | XOF 340,000 (thousand) |
| Infrapark Police S.A. w likwidacji (in liquidation)                      | 54.43                  | 14,986                 |
| Budchem Sp. z o.o. w upadłości likwidacyjnej (in liquidation bankruptcy) | 48.96                  | 1,201                  |
| Kemipol Sp. z o.o.   | 33.99                  | 3,445                  |

The Parent holds 15.46% of shares in PDH Polska S.A.

Grupa Azoty Police Serwis Sp. o.o. holds one share in African Investment Group S.A. (a 0.1% equity interest) and has the right of representation on the company's Executive Board.

African Investment Group S.A. holds one share in Grupa Azoty Africa S.A. w likwidacji (in liquidation) and 100% of shares in AFRIG Trade SARL (share capital of XOF 33,000,000).

#### **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        |

CTL Chemkol Sp. z o.o. holds 0.783% of shares in ZAKSA S.A.

#### **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.                        | 77.86%                 | 4,654         |

#### **Parent's material non-controlling interests as at December 31st 2017**

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

### **1.3. Changes in the organisational structure**

Changes in the Group's structure, including changes resulting from business combinations, acquisitions or disposals of Group entities, as well as long-term investments, demergers, restructuring or discontinuation of operations in the reporting period.

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

Since November 2015, in accordance with the provisions of the agreement for the sale of shares in Grupa Azoty SIARKOPOL of September 25th 2013 and the terms of the Social Package, the Parent has been buying back the shares held by employees of Grupa Azoty SIARKOPOL and their heirs. The buyout programme covers up to 825,000 shares.

In 2017, the Parent acquired 50,157 shares in Grupa Azoty SIARKOPOL, representing 0.91% of that company's share capital, for PLN 3,377 thousand. Currently, the Parent holds 99.33% of Grupa Azoty SIARKOPOL's share capital.

#### **Liquidation of Grupa Azoty AFRICA S.A.**

On May 12th 2017, the Annual General Meeting of Grupa Azoty AFRICA S.A. passed a resolution to liquidate the company.

#### **Share capital increase at PDH Polska S.A.**

On July 11th 2017, the management board of PDH Polska S.A. allotted in a private placement 2,282,125 Series C shares to the Parent and 2,917,875 these shares to Grupa Azoty Police (the issue price and par value per share was PLN 10). On July 14th 2017, the share capital increase at PDH Polska S.A. was registered in the National Court Register. Following the registration, the company's share capital is PLN 180,000 thousand, comprising 18,000,000 shares.

As a result of the private placement, Grupa Azoty S.A. came to hold 2,782,125 shares in the company, representing 15.46% of its share capital. The remaining PDH Polska shares are held by Grupa Azoty POLICE.

On October 18th 2017, the management boards of the Parent and Grupa Azoty POLICE resolved to acquire new registered shares in PDH Polska S.A.

Pursuant to the adopted resolutions, the Parent decided to acquire 9,400,000 shares for PLN 94,400 thousand, and Grupa Azoty POLICE decided to acquire 3,000,000 shares for PLN 30,000 thousand, in each case by way of subscription for shares in PDH Polska S.A.'s increased share capital.

It was agreed that payments for the new shares would be made as follows:

- the Parent and Grupa Azoty POLICE would pay, respectively, PLN 23,500 thousand and PLN 7,500 thousand by March 1st 2018 (the payments have been made),
- the Parent and Grupa Azoty POLICE would pay, respectively, PLN 70,500 thousand and PLN 22,500 thousand by September 1st 2018.

On April 9th 2018, the share capital increase at PDH Polska S.A. was registered in the National Court Register.

#### **Capital increase at Grupa Azoty Compounding Sp. z o.o.**

On September 28th 2017, the Extraordinary General Meeting of Grupa Azoty Compounding Sp. z o.o. resolved to increase the company's capital from PLN 5 thousand to PLN 1,100 thousand.

The increase was effected by way of an issue of 11,000 new, equal and indivisible shares with a par value of PLN 100 per share.

All new shares were subscribed for by the Parent.

On October 6th 2017, the Parent made a cash payment for the new shares.

The capital increase was registered in the National Court Register on December 20th 2017.

On December 28th 2017, the Extraordinary General Meeting of Grupa Azoty Compounding Sp. z o.o. resolved to increase the company's share capital by PLN 4,895 thousand, from PLN 1,105 thousand.

The increase was effected by way of an issue of 48,950 new, equal and indivisible shares with a par value of PLN 100 per share, i.e. from 11,050 to 60,000 shares.

All new shares were subscribed for by the Parent.

The capital increase was registered in the National Court Register on January 11th 2018.

#### **Capital increase at Zakłady Azotowe Chorzów S.A.**

On December 4th 2017, the Extraordinary General Meeting of Zakłady Azotowe Chorzów S.A. resolved to increase the company's share capital from PLN 58,700 thousand to PLN 94,700 thousand, through an issue of 3,600,000 Series C registered shares, by way of a private placement with Grupa Azoty PUŁAWY.

All new shares were acquired by Grupa Azoty PUŁAWY for cash.

The capital increase was registered in the National Court Register on January 3rd 2018. As a result, Grupa Azoty Puławy's equity interest in Zakłady Azotowe Chorzów S.A. rose to 96.48%.

#### **Merger of Grupa Azoty KOLTAR Sp. z o.o., CTL CHEMKOL Sp. z o.o., and CTL KOLZAP Sp. z o.o.**

In view of the changes, introduced as of January 1st 2018, in the management of railway sidings of the key Group companies and of the closing of cooperation in railway siding services with CTL's special purpose vehicles, on December 6th 2017 an agreement was signed between Grupa Azoty KĘDZIERZYN, Grupa Azoty PUŁAWY and CTL Logistics Sp. z o.o., with the participation of Grupa Azoty POLICE, Grupa Azoty KOLTAR Sp. z o.o., CTL CHEMKOL Sp. z o.o., and CTL KOLZAP Sp. z o.o.

On December 6th 2017, the Extraordinary General Meeting of CTL KOLZAP Sp. z o.o. approved the transfer of 2,040 shares in CTL KOLZAP Sp. z o.o. held by CTL Logistics Sp. z o.o. to CTL KOLZAP Sp. z o.o., for the purpose of their cancellation.

Also on December 6th 2017, the Extraordinary General Meeting of CTL CHEMKOL Sp. z o.o. approved the transfer of 2,040 shares in CTL CHEMKOL Sp. z o.o. held by CTL Logistics Sp. z o.o. to CTL CHEMKOL Sp. z o.o., for the purpose of their cancellation.

Accordingly, on January 1st 2018 CTL KOLZAP Sp. z o.o. and CTL CHEMKOL Sp. z o.o. made a representation to the effect that all the shares in those companies held by CTL Logistics Sp. z o.o. had been repurchased by them and cancelled.

In line with Grupa Azoty's 'Railway Asset Management Model', the railway siding services are to be consolidated by Grupa Azoty KOLTAR Sp. z o.o., while CTL Logistics is to remain the Group's strategic partner in freight transport.

On December 6th 2017, Grupa Azoty KOLTAR Sp. z o.o. and CTL Logistics signed an agreement to acquire an organised part of business of CTL Logistics Sp. z o.o. in Police. On January 1st 2018, Grupa Azoty KOLTAR Sp. z o.o. expanded its business to include a new location in Police, where it provides forwarding, shunting, and repair services.

A plan of merger between Grupa Azoty KOLTAR Sp. z o.o., CTL CHEMKOL Sp. z o.o. and CTL KOLZAP Sp. z o.o. was agreed upon and signed on March 27th 2018. The plan specified the method in which the merger would be carried out, the ratio at which the shares in the acquired companies would be exchanged for the shares in the acquiring company, the rules governing the allotment of shares in the acquiring company, etc. The plan was published on the websites of the merged companies.

#### **Agreement concerning African Investment Group S.A.**

In connection with claims raised by Grupa Azoty POLICE for reimbursement of undue tranches of the purchase price for 55% of shares in African Investment Group S.A., on December 20th 2017 the company and DGG ECO Sp. z o.o. entered into a conditional agreement (confirmed by court settlement). The agreement was to be consummated by way of mutual confirmation of the termination and reversal of the effects of an agreement of August 28th 2013 under which Grupa Azoty POLICE had acquired a majority interest in African Investment Group S.A., having paid a total of USD 28,850,000 towards the purchase price. Reversal of the effects of the above-mentioned agreement was to include reimbursement to Grupa Azoty POLICE of all amounts paid by it for the shares in African Investment Group S.A. against re-transfer of the shares to DGG ECO Sp. z o.o. The agreement was to have been consummated by February 28th 2018 provided that the requisite corporate approvals are granted by that date, and that the company receives the first tranche of the price reimbursement along with a bank guarantee securing reimbursement of the balance, which was to be made in quarterly instalments, the last payable by December 31st 2022. The guarantee was also to partly secure repayment by AFRIG S.A. of a credit facility of up to EUR 22,000,000 contracted by AFRIG S.A. and the company, the servicing and repayment of which was to be continued by AFRIG S.A. Consummation of the agreement was also to result in cancellation of AFRIG S.A.'s liabilities towards the Parent, except for any claims arising in connection with repayment of the credit facility.

As at February 28th 2018, DGG ECO Sp. z o.o. had not reimbursed the first tranche of the purchase price for the shares in African Investment Group S.A. and no bank guarantee securing reimbursement of the balance had been provided. Therefore, the conditional agreement between Grupa Azoty POLICE and DGG ECO Sp. z o.o. had not been consummated by the envisaged date. However, Grupa Azoty POLICE announced that it was holding talks with DGG ECO Sp. z o.o., continuing the efforts aimed at fulfilling the conditions for consummation of the agreement, and specified March 16th 2018 as the deadline.

On March 17th 2018, the Company announced that, due to non-payment by DGG Eco Sp. z o.o. of the first tranche of reimbursement of the purchase price for shares in African Investment Group S.A. and failure to provide a bank guarantee securing reimbursement of the balance, the conditional agreement concluded between Grupa Azoty Police and DGG Eco Sp. z o.o. had not been consummated by the declared additional deadline.

#### **Share capital increase at Zarząd Morskiego Portu Police Sp. z o.o.**

On December 21st 2017, the District Court for Szczecin-Centrum in Szczecin, 13th Commercial Division of the National Court Register, registered an increase of Zarząd Morskiego Portu Police Sp. z o.o.'s share capital, following which Grupa Azoty POLICE's equity interest in Zarząd Morskiego Portu Police Sp. z o.o. fell to 99.91%.

#### **Consolidation of Supra Agrochemia Sp. z o.o.**

A decision was made to consolidate Supra Agrochemia Sp. z o.o., a Grupa Azoty POLICE subsidiary, in the consolidated financial statements by recognising a correction to comparative data (the Parent had controlled Supra Agrochemia Sp. z o.o. in prior periods through Grupa Azoty POLICE).

Supra Agrochemia Sp. z o.o. also made adjustments to the previously recognised and used provisions for costs of land remediation within the company's premises by recording a correction of a prior period error. An analysis of the environmental protection law in the context of IFRSs showed there was no basis for recognising such provisions and the costs of land remediation should be capitalised in assets to which they pertain.

#### **Merger of Agrochem Puławy Sp. z o.o. and Agrochem Sp. z o.o.**

On December 21st 2017, the Management Boards of Agrochem Puławy Sp. z o.o. and Agrochem Sp. z o.o., acting pursuant to Art. 504 of the Commercial Companies Code, notified Grupa Azoty PUŁAWY (the sole shareholder of both companies) of their planned merger.

Under the 'Merger Plan for Agrochem Puławy Sp. z o.o. of Puławy and Agrochem Sp. z o.o. of Dobrze Miasto', attached to the notification, the merger is to be effected in accordance with Art. 491 of the Commercial Companies Code, through acquisition of Agrochem Sp. z o.o. by Agrochem Puławy Sp. z o.o. pursuant to Art. 492.1.1 of the Commercial Companies Code, i.e. by way of a transfer of all assets of the acquiree to the acquirer, with a simultaneous increase in the acquirer's share capital through the issue of new shares; these merger shares are to be allotted to the shareholders of the acquiree.

As a result of the merger, the share capital of Agrochem Puławy Sp. z o.o. will be increased from PLN 50,000,000 to PLN 68,639,000.

On February 28th 2018, the Extraordinary General Meetings of the two companies passed resolutions on their merger.

***Events after the reporting period***

**Change in the name of CTL CHEMKOL Sp. z o.o.**

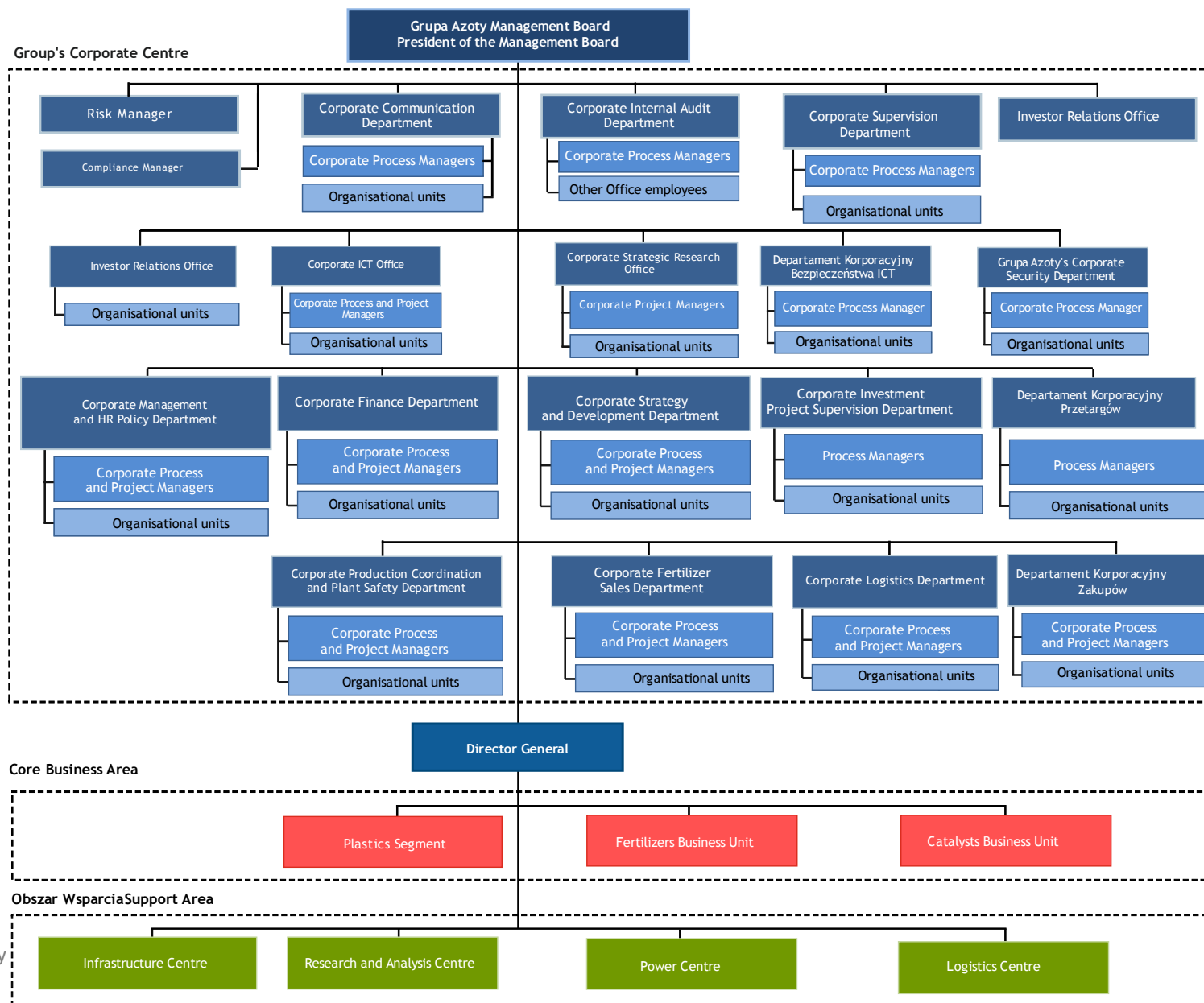
On February 6th 2018, the Extraordinary General Meeting of CTL CHEMKOL Sp. z o.o. passed a resolution to change the name of CTL CHEMKOL Sp. z o.o. to Grupa Azoty Chemkol Sp. z o.o. The change was registered in the National Court Register on March 29th 2018.

**Change in the name of CTL KOLZAP Sp. z o.o.**

On February 28th 2018, the Extraordinary General Meeting of CTL KOLZAP Sp. z o.o. passed a resolution to change the name of CTL KOLZAP Sp. z o.o. to Grupa Azoty KOLZAP Sp. z o.o.

## 2. Management policy

### 2.1. Parent's organisational chart



## 2.2. Workforce

### Number of employees at the Group

| Employee group           | as at<br>Dec 31st 2017 |               | as at<br>Dec 31st 2016 |               |
|--------------------------|------------------------|---------------|------------------------|---------------|
|                          | Women                  | Men           | Women                  | Men           |
| blue collar employees    | 1,300                  | 8,040         | 1,297                  | 7,796         |
| white collar employees   | 2,073                  | 3,021         | 2,001                  | 3,079         |
| <b>Total</b>             | <b>3,373</b>           | <b>11,061</b> | <b>3,298</b>           | <b>10,875</b> |
| <b>Total – the Group</b> | <b>14,434</b>          |               | <b>14,173</b>          |               |

### Number of employees at the Parent

| Employee group            | as at<br>Dec 31st 2017 |              | as at<br>Dec 31st 2016 |              |
|---------------------------|------------------------|--------------|------------------------|--------------|
|                           | Women                  | Men          | Women                  | Men          |
| blue collar employees     | 299                    | 1,038        | 301                    | 988          |
| white collar employees    | 342                    | 469          | 335                    | 464          |
| <b>Total</b>              | <b>641</b>             | <b>1,507</b> | <b>636</b>             | <b>1,452</b> |
| <b>Total – the Parent</b> | <b>2,148</b>           |              | <b>2,088</b>           |              |

### Number of employees at consolidated subsidiaries

| Employee group              | as at<br>Dec 31st 2017 |              | as at<br>Dec 31st 2016 |              |
|-----------------------------|------------------------|--------------|------------------------|--------------|
|                             | Women                  | Men          | Women                  | Men          |
| blue collar employees       | 1,001                  | 7,002        | 995                    | 6,809        |
| white collar employees      | 1,731                  | 2,552        | 1,665                  | 2,616        |
| <b>Total</b>                | <b>2,732</b>           | <b>9,554</b> | <b>2,660</b>           | <b>9,425</b> |
| <b>Total – subsidiaries</b> | <b>12,286</b>          |              | <b>12,085</b>          |              |

### Number of employees at the Group: average for the year and as at the end of 2017

| Employee group         | average<br>annual |                 | as at<br>Dec 31st 2017 |               |
|------------------------|-------------------|-----------------|------------------------|---------------|
|                        | Women             | Men             | Women                  | Men           |
| blue collar employees  | 1,307.8           | 7,984.3         | 1,300                  | 8,040         |
| white collar employees | 2,041.5           | 3,038.9         | 2,073                  | 3,021         |
| <b>Total</b>           | <b>3,349.3</b>    | <b>11,023.2</b> | <b>3,373</b>           | <b>11,061</b> |

### Number of employees at the Parent: average for the year and as at the end of 2017

| Employee group         | average<br>annual |                | as at<br>Dec 31st 2017 |              |
|------------------------|-------------------|----------------|------------------------|--------------|
|                        | Women             | Men            | Women                  | Men          |
| blue collar employees  | 300.8             | 1,009.3        | 299                    | 1,038        |
| white collar employees | 338.5             | 463.3          | 342                    | 469          |
| <b>Total</b>           | <b>639.3</b>      | <b>1,472.6</b> | <b>641</b>             | <b>1,507</b> |

**Number of employees at consolidated subsidiaries: average for the year and as at the end of 2017**

| Employee group         | Average annual headcount |                | Dec 31st 2017 |              |
|------------------------|--------------------------|----------------|---------------|--------------|
|                        | Women                    | Men            | Women         | Men          |
| blue collar employees  | 1,007.0                  | 6,975.0        | 1,001         | 7,002        |
| white collar employees | 1,703.0                  | 2,575.6        | 1,731         | 2,552        |
| <b>Total</b>           | <b>2,710.0</b>           | <b>9,550.6</b> | <b>2,732</b>  | <b>9,554</b> |

**Employee turnover at the Group from January 1st to December 31st 2017**

|              | 2017  |     |
|--------------|-------|-----|
|              | Women | Men |
| New hires    | 297   | 942 |
| Terminations | 214   | 785 |

**Employee turnover at the Parent from January 1st to December 31st 2017**

|              | 2017  |     |
|--------------|-------|-----|
|              | Women | Men |
| New hires    | 35    | 119 |
| Terminations | 29    | 68  |

**Workforce structure at the Group by education**

| Item                | Year | Total workforce | University or equivalent | Secondary | Vocational | Primary |
|---------------------|------|-----------------|--------------------------|-----------|------------|---------|
| Number of employees | 2017 | 14,434          | 4,319                    | 6,070     | 3,313      | 732     |
| Number of employees | 2016 | 14,173          | 4,144                    | 5,881     | 3,363      | 785     |

**Workforce structure at the Parent by education**

| Item                | Year | Total workforce | University or equivalent | Secondary | Vocational | Primary |
|---------------------|------|-----------------|--------------------------|-----------|------------|---------|
| Number of employees | 2017 | 2,148           | 628                      | 876       | 547        | 97      |
| Number of employees | 2016 | 2,088           | 588                      | 834       | 566        | 100     |

**Workforce structure at the Group by length of service**

| Item                | Year | up to 5 years  | 6–10 years     | 11–20 years    | Above 20 years |
|---------------------|------|----------------|----------------|----------------|----------------|
| Number of employees | 2017 | 2,493<br>17.3% | 1,705<br>11.8% | 2,787<br>19.3% | 7,449<br>51.6% |
| Number of employees | 2016 | 1,814<br>12.8% | 1,593<br>11.2% | 2,804<br>19.8% | 7,962<br>56.2% |

**Workforce structure at the Parent by length of service**

| Item                | Year | up to 5 years | 6–10 years  | 11–20 years | Above 20 years |
|---------------------|------|---------------|-------------|-------------|----------------|
| Number of employees | 2017 | 408<br>19.0%  | 130<br>6.0% | 212<br>9.9% | 1,398<br>65.1% |



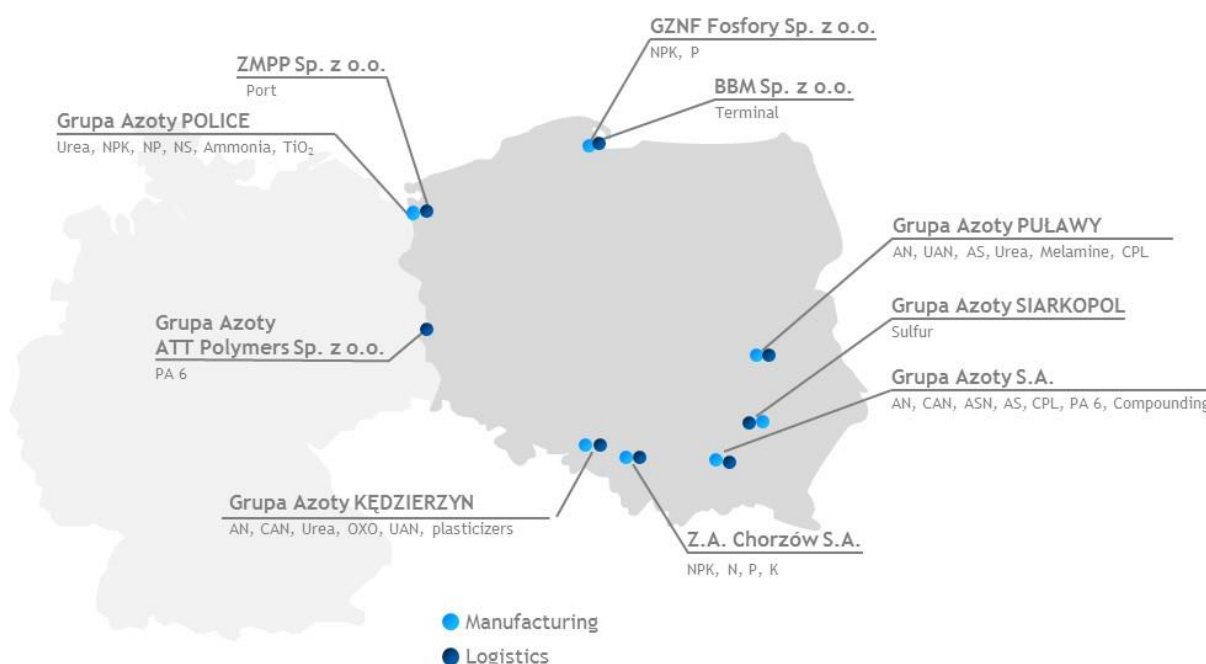
|                     |      |       |      |       |       |
|---------------------|------|-------|------|-------|-------|
|                     |      | 333   | 132  | 268   | 1,355 |
| Number of employees | 2016 | 15.9% | 6.3% | 12.9% | 64.9% |

### 3. Business overview

#### 3.1. Business segments

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

##### Core business of the Group



Source: Source: Company data.

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

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

#### Agro Fertilizers

Mineral fertilizers are the key area of the Group's business. The Agro Fertilizers segment manufactures nitrogen and compound fertilizers, as well as ammonia and other nitrogen-based intermediate products.

The segment's manufacturing activities are conducted by the companies in Tarnów (Parent), Puławy, Kędzierzyn, Police, Gdańsk, and Chorzów. The Group is Poland's largest 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 manufactured by three companies – in Tarnów, Puławy, and Guben (Germany). The Group is the leading manufacturer of polyamide 6 in Poland and the third largest producer of PA6 in the European Union.

## Chemicals

The Chemicals segment is an important part of the Group's business, comprising OXO alcohols, plasticizers, melamine, technical grade urea, titanium white, sulfur, AdBlue, and other products. They are manufactured in Kędzierzyn, Puławy, Police, and Grzybów. The Group is a major manufacturer of melamine globally and the third largest in the European Union. As regards OXO products, the Group is the only manufacturer of OXO alcohols in Poland, ranking fifth in the European Union; it is also Poland's largest and EU's fifth largest manufacturer of plasticizers and the only producer of titanium white in Poland.

## Energy

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

Individual Group companies are the segment's key customers. Outside the Group, the segment's products are sold on the electricity and hot water markets to local customers. The Group companies operate their own electricity and energy carrier distribution networks.

## Other Activities

The Other Activities segment comprises auxiliary and support services. As in the case of the Energy segment, its services are mainly rendered for the Group companies. Outside the Group, the segment mainly provides maintenance and other services (automation, design, repair, etc.) and logistics services (road transport, rail transport, ports), and conducts manufacturing at the Catalyst Production Plant. The segment is also involved in various operations in such areas as environmental protection, administration, research, and infrastructure management.

### 3.2. Overview of key products

#### AGRO FERTILIZERS

The 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 (made as a result of mixing fertilizers in the manufacturing process: ammonium sulfate nitrate, solid and liquid mixtures of urea and ammonium sulfate, and ammonium sulfate). Natural gas is the key feedstock for nitrogen fertilizers production.

**Urea** – a nitrogen fertilizer containing 46% nitrogen; it is produced in Puławy (PULREA®), Police (mocznik.pl®), and Kędzierzyn. Urea is a universal fertilizer - it can be used for all crops at various growth stages, both in the granular form and as a solution.

Outside agriculture, urea is used for technical purposes, mainly for manufacturing of adhesive resins, which find application in the chipboard industry. Urea may also be further processed into urea-ammonium nitrate solution (UAN – RSM®), 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 this product in a wide variety of granule forms and sizes, such as mechanically granulated ZAKsan®, with excellent sowing properties; the PULAN® beaded ammonium nitrate, and '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, well soluble and easily absorbed by crops. The Group markets CAN in a number of granule varieties; the offering includes the granulated Salmag® fertilizers (including varieties with a sulfur or boron content), and bead fertilizers such as Saletrzak 27 (CAN 27) standard and Saletrzak 27 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**

These fertilizers improve sulfur content in the soil, enhance arable crops' ability to absorb nitrogen, and thus increase the quality and volume of crops.

- PULGRAN®S - urea-ammonium sulfate, is a nitrogen fertilizer with sulfur in the form of white hemispherical pastilles, obtained by blending urea and ammonium sulfate. It is manufactured in two varieties with various contents: 37% nitrogen/21% sulfur and 33% nitrogen/31% sulfur.
- Saletrosan®, or ammonium sulfate nitrate, is a nitrogen fertilizer with sulfur, obtained by blending ammonium nitrate and ammonium sulfate. Saletrosan® 26 contains 26% nitrogen and 13% sulfur. The fertilizer is also marketed under the trade name Saletrosan® 30, with different proportions of nitrogen and sulfur (30% and 6%).
- Polifoska® 21 is a nitrogen fertilizer with sulfur; it is an ammonium sulfate-urea mix, containing 21% nitrogen and 33% sulfur.
- AS 21 (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 and in flue gas desulfurisation processes. The Group manufactures a wide range of ammonium sulfate in various granule forms and sizes: selection, macro, standard, and crystalline.
- PULASKA® is a liquid nitrogen fertilizer with sulfur, obtained by blending 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 grades of compound fertilizers, which are marketed under the following trade names: Polifoska®, Polidap®, Polimag® Superfosfat, Amofoska®, etc. The Group also offers dedicated fertilizers, custom-made to satisfy customers' specific requirements.

**Phosphorites** (phosphate rock) – feedstock for the manufacturing of compound fertilizers, naturally occurring in various parts of the globe. Phosphate rock is a sedimentary rock containing phosphate-bearing minerals which, after being extracted and beneficiated, are used mainly to produce phosphoric acid. For the Group, it is an intermediate product used to manufacture compound fertilizers (NP and NPK).

**Ammonia** – feedstock for the manufacture of fertilizers, produced in a process of direct synthesis of nitrogen and hydrogen. 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 the manufacturing of caprolactam or polymers, or as a cooling agent. Natural gas is the key feedstock for the production of ammonia.

## **PLASTICS**

### **Engineering plastics**

Engineering plastics exhibit high thermal resistance and good mechanical properties. The wide range of the plastics' beneficial properties makes them a product of choice for many industries, including automotive, construction, electrical engineering, household appliances, 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). It also offers modified plastics, custom-made to meet the requirements of individual customers.

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

### **Caprolactam**

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

## CHEMICALS

### OXO products

#### OXO alcohols

The Group makes the following OXO alcohols: 2-ethylhexanol (2-EH) and butanols (n-butanol, isobutanol). The key product in this group is 2-EH.

**2-ethylhexanol (2-EH)** is used in the manufacture of plasticizers, paints and varnishes as well as in the textile industry and oil refining processes. It can also be applied as a solvent for vegetable oils, animal fats, resins, waxes and petrochemicals.

#### Plasticizers

The Group manufactures three plasticizers: DEHT/DOTP, DEHP, DPHP. Plasticizers are used in the chemical industry to increase the plasticity of materials, mainly PVC, and as an additive to paints and varnishes.

The key plasticizer produced by the Group is DEHT.

The Group's **DEHT/DOTP** is marketed under the Oxoviflex® brand. It is used in plastics processing as a non-phthalic plasticizer as well as in the manufacture of paints and varnishes. It is also widely applied for the production of floor tiles and wall cladding as well as toys for children.

#### Sulfur

The product offered by Grupa Azoty is mined sulfur. Sulfur is mainly used to produce sulfuric acid, which is widely used in the chemical industry, for instance to produce DAP, a two-component fertilizer. The product is offered in various forms. For the Group's own needs, sulfur is also purchased from other suppliers who obtain it as a by-product from flue gas desulfurisation or crude oil refining.

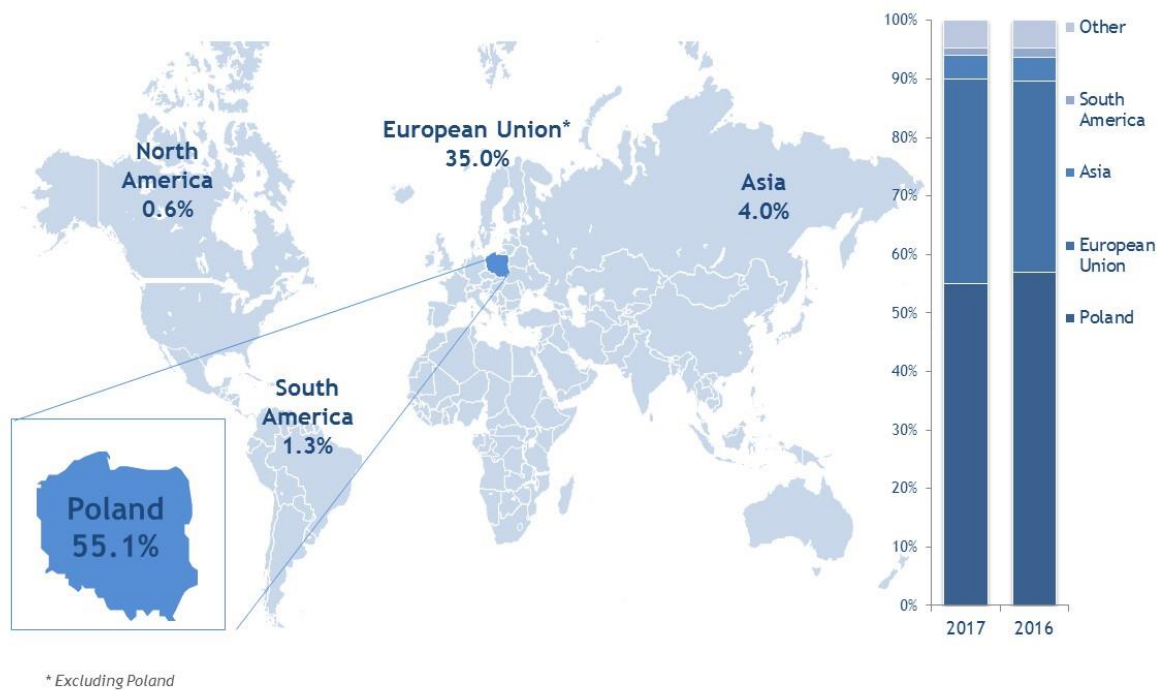
#### Melamine

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 procurement of raw materials, merchandise and services

The Group's products are sold all over the world, mainly in the European Union, and on the domestic market.

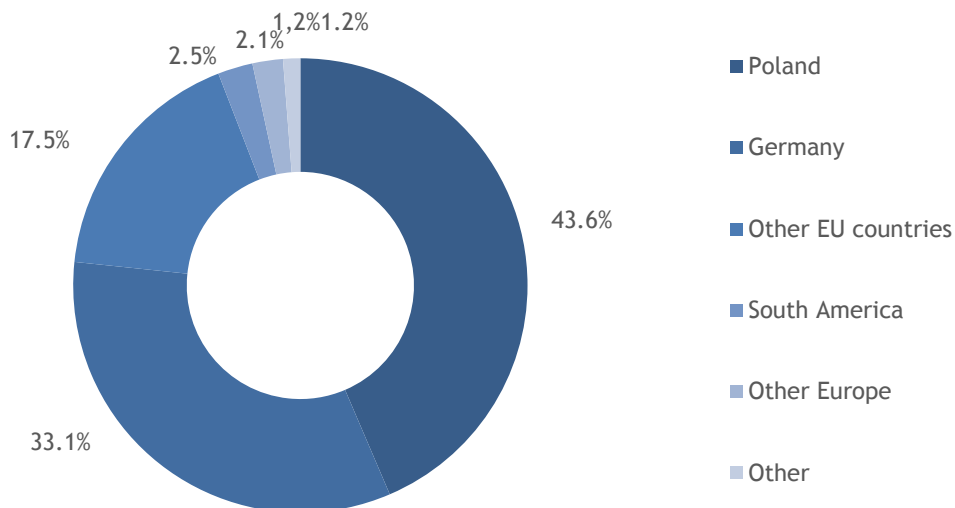
#### The Group's sales by geographies (by revenue)



\* Excluding Poland.

Source: Company data.

#### The Parent's sales by geographies (by revenue)



Source: Company data.

In 2017, the Parent had one customer which accounted for more than 10% of total revenue. It was Grupa Azoty ATT Polymers GmbH, a subsidiary of the Parent.

## **Sources of strategic raw materials**

For the most part, the Group procures its raw materials, merchandise and services on the domestic and EU markets. Certain raw materials, such as phosphate rock or ilmenite, are purchased from non-EU suppliers. Raw materials supplied by the Group companies, i.e. ammonia, nitric acid and sulfur, account for a significant share of total raw materials procured by the Group. In 2017, the Group had one supplier whose share in the total cost of raw materials exceeded 10%; it was Polskie Górnictwo Naftowe i Gazownictwo (PGNiG S.A.).

### **Ammonia**

The procurement strategy is based primarily on the optimisation of intragroup supplies. Intragroup supplies are transacted on market terms. The Group is the largest ammonia manufacturer in Poland and CEE, and operates several ammonia units. It is also one of the largest consumers of ammonia in the region. Having satisfied its own needs, the Group sells surplus ammonia to third parties. The Group's ability to effectively secure ammonia supplies largely depends on conditions prevailing on the fertilizer market and in the natural gas sector.

### **Benzene**

Benzene is mainly delivered under one-year contracts, with supplementary purchases made on the spot market. Benzene is sourced chiefly from domestic and CEE suppliers. The benzene market is largely driven by the situation on the crude oil market and the demand-supply balance on global markets, particularly the level of demand for benzene outside Europe.

### **Electricity**

The Group purchases electricity from major Polish suppliers, i.e. PGE Obrót S.A., ENEA S.A., and TAURON Sprzedaż S.A. Following a number of tenders for 2017, the Group companies signed electricity supply contracts under their existing framework agreements. Thanks to the joint procurement strategy for electricity supplies, they secured competitive prices and favourable terms of the contracts. Given the volatility of the electricity market and its changing legal framework, the Group's policy was to purchase electricity under short-term contracts.

### **Phenol**

The procurement strategy is based primarily on supplies from the domestic and EU markets. A situation on the phenol market is largely driven by developments on the market of benzene (which is the principal component in the phenol pricing formulae). The Group secures phenol supplies for its own needs under contracts concluded directly with the EU's key producers.

### **Phosphate rock**

Phosphate rock is purchased under term contracts or on the spot market, chiefly from North African producers, given the mineral's abundance in the region and the well-developed local sea logistics infrastructure. The situation on the phosphorite market is to a large extent driven by the situation in the fertilizers sector. The Group has in place a joint phosphate rock purchase programme for Grupa Azoty POLICE and GZNF Fosfory Sp. z o.o.

### **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.

### **Propylene**

The bulk of the Group's purchases of propylene are made under annual contracts, with supplementary purchases made on the spot market. To a large extent, propylene prices are driven by oil prices. The Group pursues a diversified procurement strategy, based chiefly on supplies from the EU and countries east of Poland. Supplies from the latter largely reduce the overall cost of propylene procurement.

### **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 intragroup supplies (from Grupa Azoty SIARKOPOL) and on supplies from the petrochemical sector. This approach gives the Group considerable procurement flexibility, and significantly reduces the risk of supply shortages. The Group also has the largest logistics facilities in Poland, which is a source of 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 reduce the cost of this raw material.

### **Potassium chloride**

With substantial natural resources and competitive commercial terms, producers from Russia and Belarus are the primary suppliers of potassium chloride. The Group's procurement strategy 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.

### **Coal**

The Group purchases coal mainly on the domestic market. Purchasing large volumes of coal of the required quality from geographically remote markets is not economically viable.

On the domestic market, prices of pulverised coal used in power generation are not directly linked to ARA rates, which only serve as pricing benchmarks for Polish coal producers.

Most of the Group companies have a strategy of purchasing coal under short-term contracts with guaranteed prices. Only Grupa Azoty PUŁAWY, because of its coal quality requirements, purchases coal under a long term-contract with negotiable prices. The contracts cover most of the Group's needs for coal supplies.

## **3.4. Significant agreements**

The agreements are presented in chronological order.

### **Significant agreements**

#### **Execution of individual contracts with Polskie Górnictwo Naftowe i Gazownictwo S.A.**

On June 21st 2017, the Parent and its subsidiaries: Grupa Azoty PUŁAWY, Grupa Azoty POLICE, Grupa Azoty KĘDZIERZYN, Grupa Azoty SIARKOPOL (jointly the "Customers" and each of them separately - a "Customer") concluded bilateral contracts ( "Individual Contracts") under the framework gas supply agreement of April 13th 2016 with Polskie Górnictwo Naftowe i Gazownictwo S.A.

Under the Individual Contracts, PGNiG is to supply gas fuel from October 1st 2018 to September 30th 2020, with an option to extend the contract term until September 30th 2022. The execution of the Individual Contracts involved shortening of the term of the existing Individual Contracts, executed on April 13th 2016 between the Grupa Azoty Group Customers and PGNiG, to September 30th 2018.

It is the parties' intention that the Individual Contracts be treated as inseparable elements of the transaction, subject to joint settlement of contracted gas volumes during the Contracts' term. PGNiG will continue as a strategic supplier of gas to the Grupa Azoty Group, and the Individual Contracts will cover approximately 80% of the Customers' total demand for the fuel.

The total value of the Individual Contracts concluded by the Customers over their four-year term is estimated at approximately PLN 7bn. The applied pricing formula is based on market gas price indices.

#### **Annex to the long-term thermal coal supply agreement**

On October 10th 2017, Grupa Azoty PUŁAWY signed an annex to the long-term agreement for thermal coal supply, executed by Grupa Azoty PUŁAWY and Lubelski Węgiel Bogdanka S.A. of Bogdanka on January 8th 2009. Under the agreement, thermal coal is supplied and sold to Grupa Azoty PUŁAWY. The annex defines new terms of sale, including:

- The price and volume of thermal coal to be supplied in 2018, and
- The volume of thermal coal to be supplied in 2018–2021.

In individual years of the agreement term the price will be determined by negotiation or will be based on a price formula which takes into account prevailing market prices.

Following the signing of the annex, the estimated value of the agreement from its execution date to December 31st 2021 (net of possible increases, deviations and tolerance) currently totals PLN 1,095m (VAT exclusive), including approximately PLN 333m (VAT exclusive) for coal supplies in 2018-2021.

### ***Significant agreements concluded after the reporting date***

#### **Annex to the long-term thermal coal supply agreement**

On February 26th 2018, Grupa Azoty PUŁAWY signed an annex to the long-term agreement for thermal coal supply, executed by Grupa Azoty PUŁAWY and Lubelski Węgiel Bogdanka S.A. on January 8th 2009. The agreement provides for sale of thermal coal to Grupa Azoty PUŁAWY. In the annex:

- The term of the agreement was extended until December 31st 2022 (previously it was to expire on December 31st 2021),
- The volume of thermal coal to be supplied in 2022 was determined,
- The volumes for 2019-2021 were increased.

Following the signing of the annex, the estimated value of the agreement from its execution date to December 31st 2022 (net of possible increases, deviations and tolerance) will total PLN 1,340m (VAT exclusive), including approximately PLN 557m (VAT exclusive) for coal supplies in 2018-2022.

The other terms of the agreement remained unchanged, not differing from standard terms used in contracts of this type.

### **Material agreements**

#### ***Insurance agreements***

##### **Consolidated Group Insurance Programme with TUV PZUW**

On February 28th 2017, six member companies of the Grupa Azoty Group which in Q4 2016 joined the mutual insurance company Towarzystwo Ubezpieczeń Wzajemnych PZUW as a Mutual Insurance Union (Związek Wzajemności Członkowskiej), including the Parent, Grupa Azoty KĘDZIERZYN, Grupy Azoty POLICE, Grupa Azoty PUŁAWY, Grupa Azoty SIARKOPOL oraz GZNF FOSFORY Sp. z o.o., entered into a new property insurance master agreement with TUV PZUW for a period of two years, from March 1st 2017 to February 28th 2019, with policies covering the following insurance lines:

- all-risk property insurance (ALLR),
- all-risk electronic equipment insurance (EEI),
- loss of profit insurance ALLR (BI),
- all-risk machinery insurance (MB).

On March 22nd 2017, TUV PZUW signed a letter of intent to expand the scope of insurance cover provided to the Grupa Azoty Group by entering into agreements covering third-party liability insurance, property in transport insurance (CARGO), contractors/erection all risks insurance (CAR/EAR) and freight forwarder liability insurance. Subsequently, by March 30th 2017, the Grupa Azoty Group companies forming the Mutual Insurance Union within TUV PZUW served termination notices on their previous insurers, effective June 30th 2017, under the following insurance agreements which had been entered into for the period from July 1st 2015 to June 30th 2018:

- A business and property owner's liability insurance master agreement with the WARTA/PZU/HESTIA insurance pool;
- A property in domestic and international transport insurance master agreement with the HESTIA/PZU/WARTA insurance pool.

A similar termination notice was also given by Grupa Azoty S.A., as the policyholder for Group companies, with effect as of June 30th 2017, under the CAR/EAR (contractors/erection all risks) master agreement which had been entered into with the WARTA/PZU/HESTIA insurance pool for the period from February 5th 2016 until June 30th 2018.

Subsequently, on June 30th 2017, the companies forming the Mutual Insurance Union, as part of the second stage of the new insurance programme, concluded the following agreements with TUV PZUW, effective for two years, from July 1st 2017 to June 30th 2019:

- Business and property owner's liability insurance (OC) master agreement,
- Property in national and international transit insurance (CARGO) master agreement,
- Contractors/erection all risks insurance (CAR/EAR) master agreement.



On December 21st 2017, the companies forming the Grupa Azoty Mutual Insurance Union concluded a motor insurance master agreement with TUW PZUW effective from January 1st 2018 to December 31st 2018, with an option to renew it for another year.

#### **Trade credit insurance at Grupa Azoty PUŁAWY**

In February 2017, the validity periods of Grupa Azoty PUŁAWY's trade credit insurance policies with Towarzystwo Ubezpieczeń Euler Hermes S.A. were extended for a period from February 1st 2017 until January 31st 2018; the policies cover:

- amounts receivable by Grupa Azoty PUŁAWY in connection with its domestic and export sales of caprolactam and melamine, as well as sales of other products to customers buying caprolactam, melamine, PUC-C and alcohol foreshots,
- amounts receivable by Grupa Azoty PUŁAWY in connection with its export sales of fertilizers, sales of NOXy®, LIKAM® and PULNOx® to CHP, power and cement plants, waste incineration facilities, and wastewater treatment plants, as well as sales of technical grade urea on the Polish market.

On July 31st 2017, the trade credit insurance policies of Grupa Azoty S.A. (with coinsurance cover for Grupa Azoty SIARKOPOL, Zakłady Azotowe Chorzów S.A., and the newly included: GNZF Fosfory S.A., Agrochem Puławy Sp. z o.o. and Agrochem Sp. z o.o.) and Grupa Azoty KĘDZIERZYN, contracted with Towarzystwo Ubezpieczeń Euler Hermes S.A. and providing global cover for these companies' receivables, were renewed for the period from August 1st 2017 to July 31st 2019.

After the reporting period, Grupa Azoty PUŁAWY again renewed the trade credit insurance policies (with the same cover) concluded with Euler Hermes for a period until January 1st 2019.

#### **Insurance of environmental risks**

On August 2nd 2017, Grupa Azoty S.A., Grupa Azoty KĘDZIERZYN, Grupa Azoty POLICE and Grupa Azoty PUŁAWY entered into an environmental risks insurance agreement covering the period from August 1st 2017 to August 31st 2018 with AIG EUROPE LIMITED Oddział w Polsce.

#### **D&O insurance**

On September 17th 2017, the Parent entered into a directors and officers (D&O) liability insurance agreement with PZU S.A. The insurance provides cover for the Group companies from September 17th 2017 to September 16th 2018. The total sum insured is PLN 200m.

#### **Commercial contracts**

##### **Contract for the purchase of ilmenite**

On January 17th 2017, Grupa Azoty POLICE and Titania AS of Norway signed a contract for ilmenite purchase.

The estimated value of the contract is PLN 140,000 thousand. The contract was concluded for a definite term from September 1st 2016 to December 31st 2019. Under the contract, ilmenite is to be delivered according to an agreed delivery schedule and commercial terms.

##### **Contract for the purchase of phosphate rock**

On May 8th 2017, Grupa Azoty POLICE entered into an agreement for the purchase of Moroccan phosphate rock with Office Chérifien des Phosphates ("OCP") of Casablanca, Morocco (the seller).

The contract was concluded for a definite term from April 1st 2017 to December 31st 2017, and defines the schedule and other commercial terms of the deliveries. The value of the deliveries to be made under the contract is estimated at PLN 135,000,000.

The other terms and conditions of the contract do not differ from standard terms typically applied in such contracts.

The execution of the contract is deemed inside information as the contract concerns supplies of phosphate rock, the primary raw material for the manufacture of compound fertilizers, in quantities sufficient to satisfy Grupa Azoty POLICE's annual requirement for that material. OCP, being the world's largest exporter of phosphorites, guarantees timely delivery of phosphate rock of high and consistent quality.

#### **Project co-financing agreements**

- On January 31st 2017, the Parent and the Ministry of Development signed an annex to the agreement of September 2nd 2016 on a PLN 20m grant for the construction of the Research and Development Centre in Tarnów, as part of the support for investment in R&D infrastructure

measure of the Smart Growth Operational Programme (SG OP). Under the annex, the timetables defined in the agreement were updated.

- On February 2nd 2017, Grupa Azoty PUŁAWY signed an agreement with the National Centre for Research and Development of Warsaw for co-financing of the 'Development and implementation of advanced process controls for the ammonia unit' project for up to PLN 1,101.8 thousand.
- On March 6th 2017, Grupa Azoty PUŁAWY received PLN 3,000 from the European Agricultural Guarantee Fund (EAGF) of the Agency for Restructuring and Modernisation of Agriculture under the single area payment scheme due for 2016.
- March 9th 2017 marked the end of the durability period for the "Upgrade of the water demineralisation unit at ZA Puławy S.A." project, implemented at Grupa Azoty PUŁAWY under an agreement concluded with the National Fund for Environmental Protection and Water Management (NFOŚiGW) on May 18th 2009.
- On August 17th 2017 and December 18th 2017, respectively, the Parent received a fifth tranche of PLN 45 thousand and a sixth tranche of PLN 326 thousand (net of interest of PLN 16.5 thousand) of co-financing under the 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 'Flue Gas Treatment Unit at Zakłady Azotowe w Tarnowie-Mościcach S.A.' project, co-financed under the Norwegian Financial Mechanism 2009-2014.
- On November 29th and December 19th 2017, the Parent received two tranches of funding totalling PLN 522.8 thousand under an agreement signed on September 2nd 2016 with the Minister of Development, acting as the Managing Authority, to finance the 'Construction of Grupa Azoty's R&D Centre in Tarnów' project, co-financed from the European Regional Development Fund. The project is being implemented under the Smart Growth Operational Programme 2014-2020.
- On November 29th 2017, Grupa Azoty PUŁAWY signed an agreement with the National Centre for Research and Development for co-financing of an expansion project in the Fertilizers segment with a PLN 2,043 thousand grant. As at December 31st 2017, the funds had not yet been disbursed.
- Grupa Azoty SIARKOPOL issued a blank promissory note with a promissory note declaration in favour of the National Centre for Research and Development as security for the proper performance of obligations under a co-financing agreement of December 5th 2017 for the 'Development of technology for the manufacture of polyphenylene sulfide as a polymer with high thermal stability and unique mechanical properties' project. The total value of the agreement is PLN 8,185.6 thousand, including co-financing of 5,171 thousand. The term of the agreement runs from May 1st 2017 to November 30th 2019.

### ***Agreements between the Grupa Azoty Group companies***

#### **NOXy® supply contract**

Zakłady Azotowe Chorzów S.A. signed a NOXy® supply contract with Grupa Azoty KĘDZIERZYN, with deliveries scheduled from January 2017 to December 2017. The value of the contract is estimated at PLN 1,700,000.

### ***Agreements between the Grupa Azoty Group companies after the reporting date***

#### **A framework contract for ammonia supplies**

On February 6th 2018, the Parent signed a framework contract with Grupa Azoty POLICE for the supply of liquid ammonia.

Its conclusion is part of the companies' production programmes for fertilizer lines and secures the supply of ammonia for the fertilizer production processes at Grupa Azoty S.A.

The contract was executed for an indefinite period starting on January 1st 2018 and defines a specific schedule and other commercial terms of the deliveries. The annual value of the contract is estimated at approximately PLN 113m (VAT exclusive).

The terms and conditions of the contract do not provide for additional contractual penalties. The other terms and conditions do not differ from standard terms used in agreements of this type.

#### **Conclusion of coal supply contracts**

On March 1st 2018, the Parent and its subsidiaries: Grupa Azoty PUŁAWY, Grupa Azoty POLICE and Grupa Azoty KĘDZIERZYN (hereinafter jointly referred to as the Customers) signed bilateral coal supply contracts with Polska Grupa Górnicza S.A. (hereinafter: the Seller).

The subject matter of the contracts is the sale of thermal coal produced at the Seller's mines and intended for consumption at the Customers in quantities specified in the respective contracts, based

on uniform business terms for the Customers. The total estimated value of all the contracts is approximately PLN 212.5m (VAT exclusive) per annum.

The contracts were concluded for an indefinite term with effect as of January 1st 2018, and provide for annual delivery periods.

The contracts are considered material to the Parent given that Polska Grupa Górnicza S.A. is a strategic supplier of thermal coal to Grupa Azoty, and the contracts will satisfy a material portion of demand for such coal; in particular, they will cover total demand from Grupa Azoty POLICE and Grupa Azoty KĘDZIERZYN, as well as up to 70% of demand from Grupa Azoty S.A. They will also supplement up to about 15% of Grupa Azoty PUŁAWY's demand not covered by other contracts.

### 3.5. Significant events

#### **Changes in the Presiding Committee of the Board of the Polish Chamber of Chemical Industry**

On February 3rd 2017, vacancies were filled and changes were made in the composition of the Presiding Committee of the Board of the Polish Chamber of Chemical Industry. Wojciech Wardacki, President of the Management Board of Grupa Azoty S.A. and Grupa Azoty POLICE, was appointed new chairman of the Board. Jacek Janiszek, President of the Management Board of Grupa Azoty PUŁAWY, was appointed deputy chairman of the Board. Paweł Bielski, Director of the Ignacy Mościcki Industrial Chemistry Research Institute, was also appointed to the Board of the Polish Chamber of Chemical Industry.

#### **Starachowice Special Economic Zone**

On February 17th 2017, the Management Board of Specjalna Strefa Ekonomiczna Starachowice S.A. (the Starachowice Special Economic Zone) granted a licence to Grupa Azoty PUŁAWY to conduct business activity in the Starachowice Special Economic Zone in connection with the 'Facility for production of ammonium nitrate-based granulated fertilizers' project. Grupa Azoty PUŁAWY will benefit from a tax exemption in respect of the costs of the project, with PLN 403m as the maximum amount of eligible costs.

According to the terms of Licence No. 169/2017, in connection with the implementation of the 'Facility for production of ammonium nitrate-based granulated fertilizers' project, Grupa Azoty PUŁAWY:

- will incur in the Special Economic Zone investment expenditure of at least PLN 310m by December 31st 2020,
- will employ at least 15 new staff by January 31st 2019 and maintain the employment level of at least 107.86 until January 31st 2024 (this number includes persons employed in full-time positions throughout the year, as well as part-time and seasonal staff, calculated in full-time equivalents),
- will complete the project by December 31st 2020.

On February 17th 2017, Grupa Azoty PUŁAWY signed Annex No. 8 to the Agreement with the Starachowice Special Economic Zone of August 10th 2007, concerning participation in the costs related to the administration and maintenance of the general infrastructure of the zone.

The amendments increase the quarterly participation fee from PLN 26.8 thousand (VAT excl.) to PLN 52 thousand (VAT excl.) as a result of addition of the PLN 25 thousand (VAT excl.) quarterly participation fee for a new plot added to the Starachowice Special Economic Zone, covered by Licence No. 169/2017 of February 17th 2017 for conducting business activity in the special economic zone.

#### **Grupa Azoty awarded 'Engine of the Polish Economy' title**

Grupa Azoty was included among Engines of the Polish Economy in a ranking by the Home & Market magazine, covering ten leading sectors of Poland's economy. Grupa Azoty was the winner in the Chemical Industry category. The Company was awarded "for its constant efforts to change the face of the Polish chemical industry."

#### **Management systems**

Following a series of successful external audits carried out by DNV GL Business Assurance Poland Sp. z o.o., an accredited certification provider, Grupa Azoty S.A. obtained Management Systems Certificates confirming its compliance with the requirements of the amended standards ISO 9001:2015 and ISO 14001:2015.

The Management Systems Certificates obtained are:

- Management System Certificate confirming that Grupa Azoty S.A.'s Quality Management System complies with the requirements of ISO 9001:2015;

- Management System Certificate confirming that Grupa Azoty S.A.'s Environmental Management System complies with the requirements of ISO 14001:2015.

The certificates cover the production and sale of nitrogen fertilizers, plastics, plastic products, catalysts, organic and inorganic chemicals, heat and electricity. They also cover R&D and laboratory services, design and development of chemical products and plastics, as well as oversight of joint operations of the Grupa Azoty Group companies.

After a series of audits carried out in 2017 by certification body DNV-GL, the Grupa Azoty Group companies, which are members of Fertilizers Europe, were awarded certificates in Product Stewardship for best practices in the management of the fertilizer life cycle.

Product Management Audits are performed every three years by a certification body. The certificate recognizes the European efforts of fertilizer manufacturers in best management practices. This includes product development, raw material acquisition, production, packaging, transport, storage, marketing and sales, product use, services for farmers.

The certificates testify to the high standards of the European fertilizer industry and its positive efforts towards achieving sustainable practices.

#### **Grupa Azoty S.A. awarded the 'Transparent Company 2016' title**

On April 6th 2017, Grupa Azoty S.A. was awarded the title of Transparent Company 2016 in the first issue of a ranking prepared by the *Parkiet* daily and the Institute of Accountancy and Taxes, with the support of the Warsaw Stock Exchange. The Company was ranked among the twenty most transparent companies included in the WIG20, WIG40 and WIG80 indices, which agreed to an assessment of their transparency.

#### **Letter of intent concerning a coal gasification project**

On April 20th 2017, the Parent and TAURON Polska Energia S.A. ( jointly referred to as the "Parties"), signed a letter of intent in which they outlined general terms of their cooperation aimed to execute a coal gasification project.

Products of the process covered by the letter of intent would primarily include syngas, with a composition enabling its direct use as feedstock for the production of hydrogen, ammonia, methanol or other chemicals. The Parties determined that natural gas currently used to produce nitrogen-based fertilizers can be partly replaced with syngas obtained through coal gasification. This creates new prospects for the mining industry, increasing the country's energy security through the development of a low-emission technology.

The Project is currently at the stage of Pre-FEED (Preliminary Front End Engineering Design) and accompanying analyses, including market analyses. Estimates are putting the Project's cost at between EUR 400m and EUR 600m, depending on the technology chosen.

TAURON Polska Energia S.A. declared it would participate in the Project on terms to be defined under separate agreements between the Parties, assuming the selection and construction of a unit guaranteeing maximised utilisation of coal from the TAURON Polska Energia Group's mines. The Parties agreed that additional coal may be supplied by third parties if TAURON Polska Energia is not able to supply coal in the quantities or with the parameters required for the process.

In the letter of intent, the Parties declared their readiness to negotiate and outlined the framework terms of cooperation, but the document did not give rise to any financial obligations or required the Parties to make any management decisions. The Parties declared their intention to cooperate and sign further agreements, including an agreement establishing a joint SPV for the Project. Each Party has the right to terminate the letter of intent on a month's notice.

#### **Changes to the scope of the PDH project**

On June 26th 2017, the Management Board of PDH Polska S.A., Grupa Azoty POLICE's subsidiary, passed a resolution recommending that construction of a polypropylene plant be a preferred option for implementation of the project to construct a petrochemical complex comprising a PDH unit, a polypropylene unit, a port with a storage tank depot, auxiliary facilities and inter-unit connections, with an annual nominal production capacity of approximately 400,000 tonnes of polypropylene. On the same day, the recommendation was approved by the company's Supervisory Board.

On October 5th 2017, the Management Board of PDH Polska S.A. (a subsidiary of Grupa Azoty POLICE, in which also the Parent holds an interest) passed a resolution on changes to the investment project designated as 'PDH propylene production unit and related infrastructure' and acquisition of non-current assets for the new scope of the project.

The resolution changed the project scope by adding a polypropylene unit, and provided for the acquisition of non-current assets as part of the new scope of the project.

The resolution has also changed the project name from 'PDH unit for propylene production and the related infrastructure' to 'Police Polymers'. The estimated value of the 'Police Polymers' project budget was set at EUR 1.27bn, VAT-exclusive, including:

- Capital expenditure to be incurred: EUR 983.80m,
- Capital expenditure incurred to date: EUR 25.33m,
- Financing costs during the construction phase, PDH Polska's operating costs and additional capital requirements related to the project financing model: EUR 263.15m.

The project requires additional working capital financing in the form of a EUR 72m loan.

The revised capex estimate covers the construction of a propylene unit, a polypropylene unit, auxiliary facilities, a polypropylene logistics base and a propane and ethylene handling and storage terminal.

The higher project budget results from the expansion of the project scope through the addition of the propylene and polypropylene units, additional auxiliary facilities necessitated by the project's extension, and a polypropylene logistics base. The increased project value will also translate into growth of the cost of financing during the construction phase and the debt service reserve required in the project finance model.

The project implementation schedule is as follows:

- Start of construction: end of 2019,
- Completion of construction: end of 2022,
- Settlement of the investment project: end of 2023.

The Management Board of PDH Polska S.A. has also revised the project finance model for Police Polymers:

- Own funds - 50%,
- Borrowed funds - 50%.

Resolutions approving changes to the project scope were passed by the Supervisory Board and the General Meeting of PDH Polska S.A. on October 12th 2017 and November 10th 2017, respectively.

#### **Submission of a non-binding offer to acquire shares in Petrokemija d.d.**

On September 22nd 2017, the Parent submitted a non-binding offer to acquire shares in Petrokemija d.d. of Kutina, Croatia. Petrokemija d.d. is a fertilizer producer listed at the Zagreb Stock Exchange. The company has published a restructuring plan: 'Concretisation of the proposed concept of restructuring through recapitalisation with the involvement of a private investor.' From January to June 2017, Petrokemija d.d. generated revenue of HRK 952,639 thousand.

On October 31st 2017, having completed a due diligence review of the company, the Management Board of the Parent resolved to withdraw from the acquisition of shares in Petrokemija d.d. of Kutina, Croatia.

Additional analyses have identified risks which, in accordance with Grupa Azoty's corporate standards, are too high and preclude its continued participation in the process.

#### **Execution of a letter of intent with Ursus S.A.**

The Parent and Ursus S.A. signed a letter of intent to cooperate in the joint development and implementation of efficient farming projects and the use of hydrogen as a source of energy for fuel cells powering electric motors. The companies will also work together on promoting and implementing educational projects.

The subject of the agreement to be signed will be the preparation and execution of joint research and development projects. The companies will also promote and implement educational projects with a strategic objective to increase both parties' competitiveness and innovation in building a modern, knowledge-based economy in Poland.

The joint efforts will involve cooperation in the use of alternative energy sources, based on the high quality hydrogen supplied by Grupa Azoty, which can become the fuel for the fuel cell electric buses built by Ursus S.A.

#### **Idea4Azoty - Grupa Azoty's innovative accelerator**

Grupa Azoty has launched the Idea4Azoty programme, a platform for exchanging highly innovative ideas. Regardless of their stage of advancement, projects entered in the programme may receive a full range of support - from grants of up to PLN 20m to infrastructure and consultancy services. The

accelerator programme is the first initiative of this type on the Polish market. Its beneficiaries will include not only the chemical industry, but also providers of new technologies and services in such areas as environmental protection, agriculture, engineering and biotechnology. The programme was officially launched on November 17th 2017, during the second edition of the 590 Congress in Rzeszów. Specialist research on new products from the chemical industry will be conducted at the Research and Development Centre in Tarnów, currently under construction. Equipped with state-of-the-art laboratories, the Centre will be the main provider of infrastructure and advisory services for the programme participants. Applications may be sent via the website [www.idea4azoty.pl](http://www.idea4azoty.pl).

#### **Grupa Azoty S.A. named Outstanding Exporter of the Year 2017**

The Parent has received an Acknowledgement Letter, Title and Cup for an 'Outstanding Exporter of the Year 2017' from the Association of Polish Exporters. This was the second distinction awarded to Grupa Azoty S.A. in 2017 by the Association, After its Tarnamid®, that is Polyamide 6 in granular form produced in Tarnów, won the title of an 'Export Product of the Year 2017'.

Tarnamid® is the trade name of Polyamide 6 produced by Grupa Azoty. It is manufactured both in natural form and a wide range of modified varieties. Thanks to its exceptional strength and fatigue endurance properties, as well as high thermal and chemical resistance, it is one of the world's key engineering plastics, used across the automotive, textile, electrical engineering, electronic and other industries, as well as in medicine.

#### **Strategic partnership between Grupa Azoty and CTL Logistics**

On December 6th 2017, Grupa Azoty signed an agreement with CTL Logistics under which it would take over certain special purpose vehicles, thus consolidating railway siding services in Kędzierzyn and Puławy. As of January 1st 2018, all companies managing railway sidings for Grupa Azoty were included into its Group. The railway siding services will be consolidated by Grupa Azoty KOLTAR, while CTL Logistics will remain Grupa Azoty's strategic partner in transport activities.

As of January 1st 2018, the railway sidings, which had previously been leased, returned to the structures of the Police, Kędzierzyn and Puławy plants. As decided by the Management Boards of these companies, Grupa Azoty KOLTAR will remain an independent, strategic operator of the sidings within the Group.

#### ***Material events after the reporting period***

##### **Police Polymers. Execution of an agreement with a licence provider**

On January 11th 2018, PDH Polska S.A. and WR. Grace & Co, exchanged duly executed counterparts of an agreement on purchase of a polypropylene process technology licence and supply of polypropylene catalysts for the Polimery Police project. The agreement marks another important milestone in the implementation of Grupa Azoty's largest investment project to date.

Police Polymers will be a manufacturing complex developed in the town of Police which is to comprise propylene and polypropylene units, a port with feedstock storage facilities, auxiliary facilities and logistics infrastructure. The company already holds technology licences key to the project: one for the Oleflex -UOP catalytic dehydrogenation technology and one for the Unipol - GRACE polypropylene process technology. In a parallel effort, PDH Polska is in the process of selecting a future general contractor under a lump-sum turn-key contract and of arranging financing for the project.

##### **Execution of an agreement on cooperation in fertilizers trading**

On February 12th 2018, the four key companies of the Grupa Azoty Group, Grupa Azoty S.A. of Tarnów, Grupa Azoty Police, Grupa Azoty Puławy and Grupa Azoty Kędzierzyn, signed a "Cooperation Agreement". The companies are to work more closely in fertilizers trading and other areas. Key objectives of the agreement are to deepen the working ties within the Group, allowing the companies to trade as a single business entity. This in turn will help them strengthen their relationships with clients. As a result of the agreement, the Group will follow a uniform trading strategy and policy, consolidating and coordinating its marketing activities under a common brand.

Headquartered in Puławy, the Corporate Agro Trade Department will form part of the organisational structure of each company.

##### **Submission of a non-binding initial offer to acquire shares in COMPO EXPERT Group companies**

On February 16th 2018, the Parent submitted a non-binding initial offer to acquire 100% of shares in the COMPO EXPERT Group companies.

The COMPO EXPERT Group, headquartered in Germany, is the largest independent global producer of high added value speciality fertilizers for professional customers. Its owner is XIO Group of London, specialising in alternative investments on a global scale.

The COMPO EXPERT products would complement Grupa Azoty's portfolio, bringing advanced solutions in speciality fertilizers.

#### **Grupa Azoty KĘDZIERZYN focused on the production of non-phthalic plasticizers**

Grupa Azoty KĘDZIERZYN is phasing out the production of phthalic plasticizers. Instead, the company has based its long-term policy on the development of non-phthalic plasticizer DEHT/DOTP (Oxoviflex®), of which it is the largest producer in Europe, as well as a range of speciality esters.

In the second half of 2018, Grupa Azoty KĘDZIERZYN will increase the Oxoviflex® capacity and in 2019 a unit producing speciality esters will be launched. The production of DEHP/DOP, medical DOP and DPHP will be discontinued, and these products will only be available while the stocks last.

The future of the OXO segment is in non-phthalic plasticizers and speciality esters. The increase in the Oxoviflex® (DEHT/DOTP) capacity is a consequence of the product policy designed to best meet the expectations of the market and customers, while the focus on speciality esters supports the company's plan to extend the OXO alcohol processing chain.

Plasticizers manufactured for over 60 years are a significant contributor to Grupa Azoty KĘDZIERZYN's financial performance and the company's position among chemical companies in Poland and Europe. There has been a noticeable increase in demand for new non-phthalic plasticizers, whose share in the European market has been growing rapidly. The range of new plasticizers will find a variety of applications, not only in PVC processing, as some of them will also provide innovative solutions for other applications.

## **4. Growth strategy and policy**

### **4.1. Strategy and growth directions**

#### **Update of the Grupa Azoty Group's Strategy for 2013–2020**

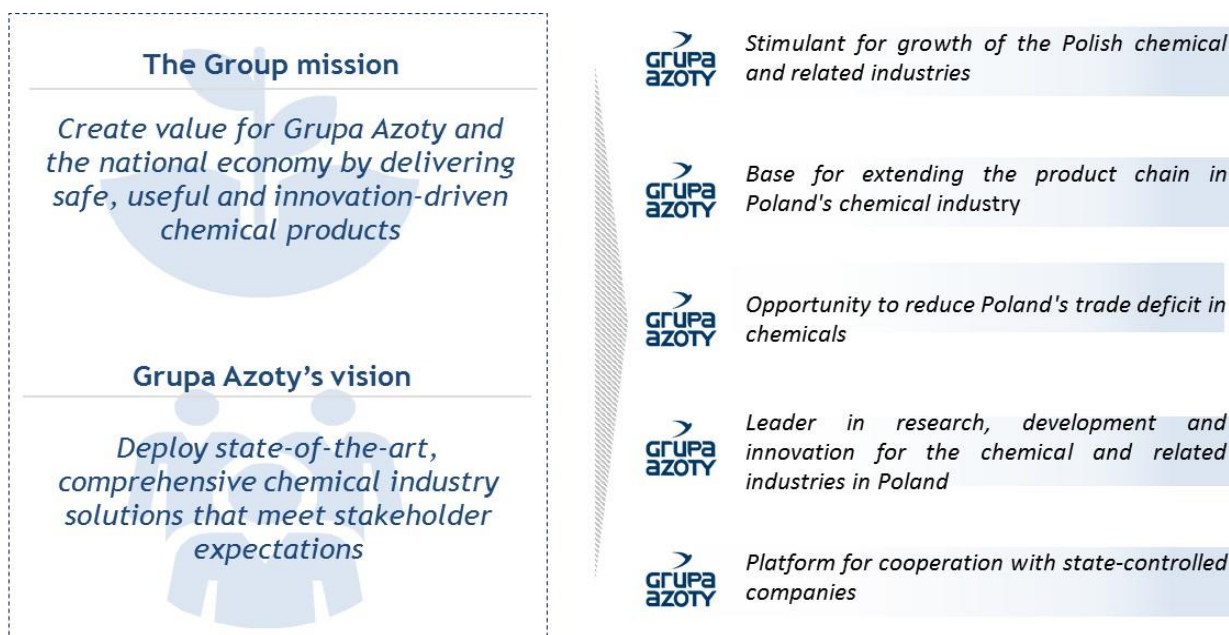
On May 10th 2017, the Management Board of the Parent passed a resolution to update the Grupa Azoty Group Strategy for 2013–2020. On the same day, the Supervisory Board of the Parent passed a resolution to approve and adopt the updated Strategy.

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

**Mission:** Create value for the Company and the national economy by delivering safe, useful and innovation-driven chemical products

**Vision:** Deploy state-of-the-art and comprehensive chemical industry solutions that meet stakeholder expectations.

#### **Grupa Azoty's Mission and Vision**



Source: Company data.

### Strategic growth directions

Changes in economic conditions and in Grupa Azoty's immediate environment have necessitated a revision to its previous strategic objectives to better align them with the current market landscape. In the years to 2020 Grupa Azoty will pursue growth in four areas representing major challenges for Poland's top chemical producer:

- Complete the Group consolidation process
- Reinforce leadership in agricultural solutions in Europe
- Strengthen the second operating pillar by expanding non-fertilizer business
- Develop and implement innovations to drive growth of the chemical industry

### Strategic growth directions



Source: Company data.

### Complete the Group consolidation process

Launched in 2013, the Grupa Azoty Group consolidation process can still offer potential further gains. In order to more effectively manage the Group, a system of management by business segments will be implemented. Grupa Azoty will continue to integrate its processes and consolidate its sales/marketing, procurement, logistics, finance, IT and other functions until 2020.

### Reinforce leadership in agricultural solutions in Europe

To preserve its strong position on the fertilizer markets at home and regionally, Grupa Azoty will seek to increase control over retail channels, looking for opportunities to grow and improve the efficiency of its production processes. In response to changing expectations of its key customers, Grupa Azoty will modify its product range to better meet the needs of modern farming, also by offering auxiliary services to farmers.

### Strengthen the second operating pillar by expanding non-fertilizer business



In order to diversify its revenue sources and become less dependent on business cycles in agriculture, Grupa Azoty will step up its efforts to expand non-fertilizer business lines, with petrochemicals and plastics as the key areas for growth.

#### **Develop and implement innovations to drive the industry's growth**

With its own unique expertise in agro-products, Grupa Azoty will become an active participant in research, development and innovation projects in Poland, particularly those focused on developing and marketing advanced, profitable, speciality fine chemicals.

### **4.2. Growth prospects and market strategy**

#### **Agro Fertilizers**

Grupa Azoty's growth strategy for Agro Fertilizers will focus on extending the value chain to include more speciality products for specific crops and customers, and on enhancing the efficiency of its production processes. The efforts will mainly focus on tailoring our product portfolio to the needs of large-scale farms, while maintaining a strong position among small farmers. Grupa Azoty will also expand its range of precision farming services.

In order to secure a market outlet for its fertilizer products, Grupa Azoty will take steps to increase control over both domestic and foreign distribution channels for agro-products. Fertilizer sale processes will be further consolidated in order to simplify and streamline Grupa Azoty's relationships with key customers. We will seek to increasingly use channels allowing us to deal directly with end consumers and grow sales of products complementary to fertilizers.

By consolidating its production assets, Grupa Azoty will act on market opportunities to reinforce its position on the European fertilizer market.

#### **Plastics**

In Plastics, our strategy will focus on extending the value chain to include more speciality products, expanding into new business fields, and improving operational efficiency.

Once brought on stream, a new polyamide unit in Tarnów will allow us to fully balance caprolactam supply with demand for Grupa Azoty's polyamide production and to focus on polyamides and their derivatives that are further down the value chain and offer stronger market potential. The new plant will produce polyamides in a full viscosity range, suitable for a broader spectrum of applications.

In line with its strategy, Grupa Azoty will avoid direct competition with its customers down the polyamide product chain. In addition, the Group will seek out opportunities to expand into advanced polyamide-based polymers, polymer additives, and engineering plastics.

#### **OXO ALCOHOLS**

The Group's strategy for the OXO business will focus on securing access to its own sources of raw materials, extending the value chain to include more speciality products, and improving operational efficiency.

In order to meet its own propylene demand and create opportunities for growth in a new value chain, Grupa Azoty will invest in a project to build a propylene production unit (PDH) in Police, which will additionally offer an option to expand into derivative products.

To better align its offering with market expectations and regulatory requirements, non-phthalate, organic and speciality plasticizers will be added to the product portfolio. In addition, Grupa Azoty sees growth opportunities in extending its product chain and processing of aldehydes into speciality products.

#### **Titanium white and melamine**

Our strategy for Titanium White and Melamine is to improve the efficiency of existing production units by implementing upgrades and removing bottlenecks, while extending the value chain to include polymer additives.

#### **Innovation strategy**

Grupa Azoty keeps track of and follows current trends, including in the area of research, development and innovation (R&D&I). We do not want to be a mere beneficiary but an active participant of the initiatives being implemented in Poland. Our ultimate goal is to lead the way and break new ground in innovation.

In order to maximise potential benefits, Grupa Azoty's R&D&I will be operationalised to establish proper structures, procedures, principles and good practices, which will be coordinated at the Group

level. This initiative will be supported through further development of the existing Research and Development Centres and establishment of new units and product specialities.

Our Strategy will focus on driving innovation to extend the value chain with high-margin, speciality fine products, adapting new technologies to our own needs, and refining existing processes.

Grupa Azoty will actively participate in open innovation initiatives, also by working with promising start-ups (commercial contracts and/or equity participation), implementing CSR projects, and engaging with local communities. In line with the Strategy, R&D&I spending will reach 1% of the Group's revenue by 2020.

#### Operational excellence strategy

Operational excellence, which complements the organic growth strategy, is about implementing mechanisms for continuous efficiency improvement, which is achieved by streamlining business processes, cutting costs, and minimising the impacts or reducing the risk of a crisis.

With the Azoty Pro initiatives at an advanced stage and with some of the optimisation measures having become outdated, Grupa Azoty is set to thoroughly review its operational excellence programme.

#### Financial strategy

The updated strategic objectives necessitated a review of the Group's corporate performance indicators.

The indicators provide a benchmark against which progress in the implementation and delivery of our Strategy will be measured.

#### Strategic financial targets



Source: Company data.

#### Functional integration

One of Grupa Azoty's strategic objectives is to integrate its finance function. Procedures and structures of finance departments will be harmonised across the Group.

#### Process support

By integrating IT systems and implementing a tool to operationalise the Strategy and monitor its progress.

#### Security

The overriding goal is to ensure long-term financial security and internal coherence among all funding sources.

#### Risk

Given the extensive capital investment programme in place and the risk of an economic downturn, no floor has been set for the dividend payout ratio.

Accordingly, if justified, the Management Board will not recommend a dividend payment.

#### Corporate management strategy

A new organisational model for the Group will be developed by 2020, to maximise synergies through integration of selected support functions and implementation of a management system based on key business segments.

#### Management structure

Grupa Azoty plans to implement a divisional management structure designed around its key business segments, supported by the Corporate Centre and the Shared Services Centre, to be gradually streamlined through divestments of non-core companies.

### Consolidation and sale of non-core companies

Based on analyses carried out to date, Grupa Azoty has identified companies in respect of which

- A business analysis is needed in terms of their consolidation within the Group,
- A decision to keep or sell needs to be made (23 companies),
- The liquidation process needs to be completed (4 companies).

### Sales consolidation

Successful optimisation of the Group's organisational structure will enable Grupa Azoty to continue the process of consolidating sales functions across the Group. One of the most important strategic goals set by Grupa Azoty is to achieve full consolidation of Group-wide fertilizer sales.

### Procurement consolidation

The centralised procurement of strategic raw materials has brought tangible benefits. Over the period covered by the Strategy, Grupa Azoty will continue to streamline and harmonise its procurement structures, while refining its procurement procedures and standards as well as joint purchasing mechanisms. The range of product categories procured through joint tender procedures will be extended, with execution of the procedures supported by an IT platform and other tools.

### Corporate social responsibility

Grupa Azoty will develop in a sustainable way, taking account of the need to:

- Improve operational safety of its chemical units and reduce environmental footprint,
- Maintain dialogue with key stakeholders and support local communities,
- Create favourable working conditions by raising employee satisfaction, health and safety standards, and staff qualifications.

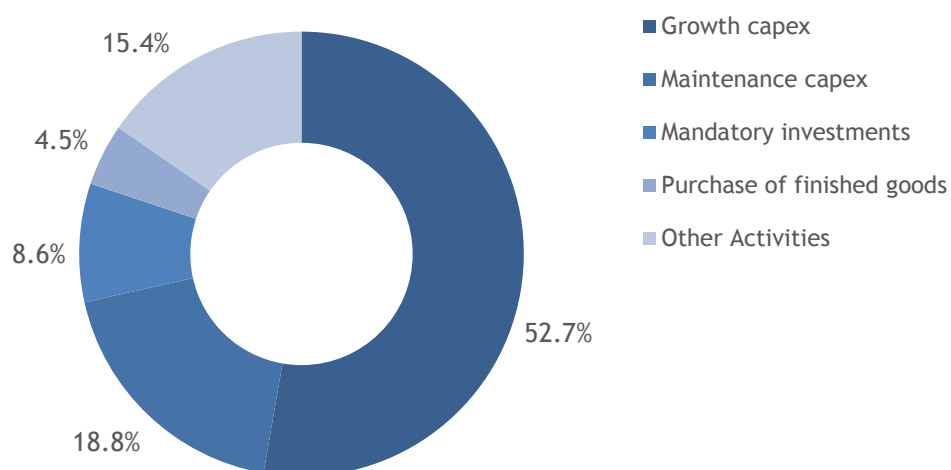
## 4.3. Key investments in Poland and abroad

The Group's capital expenditure is presented below, including amounts spent on components, major overhaul work and improvements.

Structure of the Group's capital expenditure in 2017:

|  |                      |
|--|----------------------|
| • Growth capex                                   | PLN 539,610 thousand |
| • Maintenance capex                              | PLN 192,148 thousand |
| • Mandatory investments                          | PLN 88,094 thousand  |
| • Purchase of finished goods                     | PLN 46,076 thousand  |
| • Other (components, major overhaul work, other) | PLN 157,393 thousand |

### Structure of capital expenditure



Source: Company data.

#### Capital expenditure at the Group in 2017:

|                                 |                                   |
|---------------------------------|-----------------------------------|
| • Parent                        | PLN 215,051 thousand              |
| • Grupa Azoty KĘDZIERZYN Group  | PLN 130,106 thousand              |
| • Grupa Azoty POLICE Group      | PLN 227,544 thousand              |
| • Grupa Azoty PUŁAWY Group      | PLN 382,220 thousand              |
| • Grupa Azoty SIARKOPOL         | PLN 26,861 thousand               |
| • Grupa Azoty PKCh Sp. z o.o.   | PLN 7,252 thousand                |
| • Grupa Azoty KOLTAR Sp. z o.o. | PLN 15,190 thousand               |
| • Grupa Azoty ATT Polymers GmbH | PLN 19,098 thousand <sup>*)</sup> |

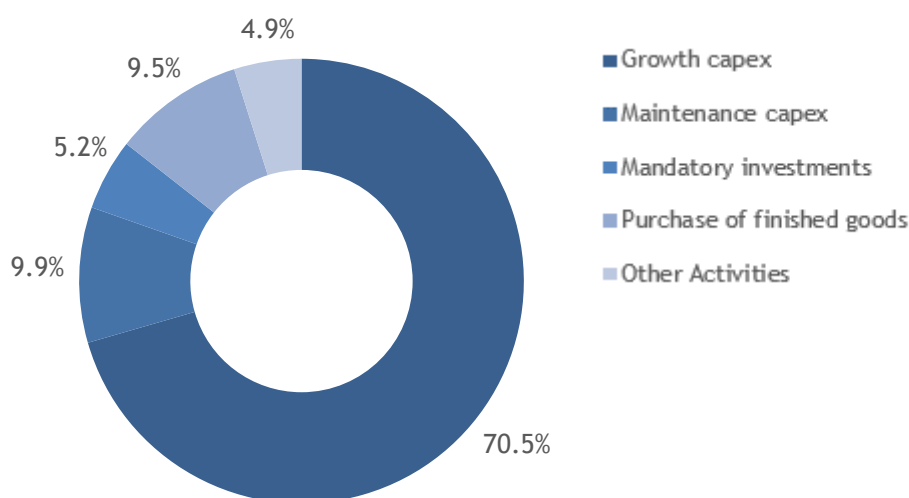
<sup>\*)</sup> Translated at the EUR/PLN exchange rate quoted by the National Bank of Poland for December 29th 2017:  
EUR 1 = PLN 4.1709 (table No. 251/A/NBP/2017).

The Parent's capital expenditure is presented below, including amounts spent on components, major overhaul work and improvements.

#### Structure of the Parent's capital expenditure in 2017:

|  |                      |
|--|----------------------|
| • Growth capex                                   | PLN 151,669 thousand |
| • Maintenance capex                              | PLN 21,182 thousand  |
| • Mandatory investments                          | PLN 11,189 thousand  |
| • Purchase of finished goods                     | PLN 20,484 thousand  |
| • Other (components, major overhaul work, other) | PLN 10,527 thousand  |

#### Structure of the Parent's capital expenditure:



Source: Company data.

#### Key investment projects implemented by the Group - the Parent

| Project name                             | Project budget | Expenditure incurred | Expenditure incurred in 2017 | Project purpose   | Scheduled completion date |
|--|----------------|----------------------|------------------------------|---|---------------------------|
| Polyamide plant II<br>80,000 tonnes p.a. | 320,000        | 310,648              | 99,793                       | To utilise the Group's caprolactam output in a more efficient manner                      | Project completed         |
| Granulation plant II                     | 141,000        | 133,172              | 19,516                       | To optimise the mix of fertilizer products and to improve value added in ammonium sulfate | Project completed         |

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

| Project name                                      | Project budget | Expenditure incurred | Expenditure incurred in 2017 | Project purpose  | Scheduled completion date |
|---|----------------|----------------------|------------------------------|--|---------------------------|
| New CHP Plant at Grupa Azoty KĘDZIERZYN – Phase 1 | 375,059        | 345,663              | 58,500                       | To restore the plant's electricity and heat generation capacity, to increase its output to satisfy demand for electricity and heat, and to implement solutions that ensure compliance with the increasingly stringent environmental requirements | Project completed         |

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

| Project name  | Project budget | Expenditure incurred | Expenditure incurred in 2017 | Project purpose   | Scheduled completion date |
|---|----------------|----------------------|------------------------------|---|---------------------------|
| Exhaust gas treatment unit and upgrade of the EC II CHP plant | 290,885        | 238,993              | 40,926                       | To bring the operation of the CHP plant's units in line with the requirements of Directive 2010/75/EU                                 | 2018                      |
| Upgrade of the ammonia unit                                   | 156,900        | 156,504              | 82,639                       | To reduce energy consumption of the ammonia production process and to improve the operational reliability of individual process nodes | Project completed         |

#### Key investment projects implemented by the Grupa Azoty Group - Grupa Azoty PDH Poland S.A.\*

| Project name   | Project budget | Expenditure incurred | Expenditure incurred in 2017 | Project purpose   | Scheduled completion date |
|--|----------------|----------------------|------------------------------|---|---------------------------|
| Propane Dehydrogenation (PDH) unit with related infrastructure, and polypropylene (PP) production unit | 5,276,829      | 77,936               | 76,936                       | To construct a unit for propane dehydrogenation into propylene (PDH); 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. The project will also include a polypropylene (PP) production unit and logistics base. | 2023                      |

\*) On October 5th 2017, the Management Board of PDH Polska S.A. passed a resolution to modify the investment project 'PDH propylene production unit and related infrastructure' and acquisition of non-current assets for the new scope of the project. For detailed information on the above, see Section 3.5. of this report.

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

| Project name   | Project budget | Expenditure incurred | Expenditure incurred in 2017 | Project purpose   | Scheduled completion date |
|--|----------------|----------------------|------------------------------|---|---------------------------|
| Upgrade of the existing and construction of new nitric acid units, neutralisation and production of new fertilizers based on nitric acid | 695,000        | 74,237               | 73,693                       | To raise the efficiency of nitric acid production and improve of the economics of production of nitric acid-based fertilizers           | 2021                      |
| Facility for production of granulated fertilizers based on ammonium nitrate  | 385,000        | 151,811              | 85,205                       | To improve the quality of fertilizers by applying modern mechanical granulation   | 2020                      |
| Replacement of the TG-2 turbine generator set  | 99,000         | 60,181               | 45,152                       | To increase the efficiency of electricity and heat cogeneration by replacing the TG-2 30 MWe pass-out and condensing turbine with a new | 2018                      |

| Project name | Project budget | Expenditure incurred | Expenditure incurred in 2017 | Project purpose                                    | Scheduled completion date |
|--------------|----------------|----------------------|------------------------------|--|---------------------------|
|              |                |                      |                              | 37 MWe turbine as part of the power system upgrade |                           |

#### 4.4. Equity investments

Save for equity investments at the Grupa Azoty Group described in Section 1.3 *Changes in the organisational structure*, no other significant equity investments were made, in particular no investments outside the group of related entities.

#### 4.5. Feasibility of investment plans

In 2017, the Parent incurred capital expenditure of PLN 215m, financed with internally generated funds, proceeds from a corporate set of long-term credit facilities and, to a lesser extent, with lease contracts and grants.

Grupa Azoty's total 2017 capital expenditure reached PLN 1,023m and was financed with internally generated funds, the corporate set of credit facilities (redistributable among the Group companies), loans granted by the National Fund for Environmental Protection and Water Management (NFOŚiGW) and the Provincial Fund for Environmental Protection and Water Management (WFOŚiGW), lease contracts and grants.

Under its centralised Financing Model, in 2017 Grupa Azoty continued to use the set of long-term credit facilities for a total amount of PLN 2,200m, to finance the Group's capital expenditure and other objectives outlined in the long-term Strategy. The facilities included:

- a PLN 1,500m syndicated revolving credit facility; as at December 31st 2017, funds available under the facility were PLN 783m,
- term loan facilities – from the EIB (PLN 550m) and the EBRD (PLN 150m); as at December 31st 2017, they were fully drawn.

In addition, after the reporting date, the Parent concluded a new EUR 145m term loan facility agreement with the EIB for financing the Group's investment plans and its research and development work; the facility has not yet been drawn.

The Group is able to finance its investment plans using either current or expected free operating cash flows (EBITDA), as well as the corporate credit facilities specified above.

Given the acceptable levels of financial ratios agreed with the strategic lenders, the Parent and the Group can further increase their external funding without the risk of breaching covenants under the set of credit facilities, or secure separate financing for projects implemented by SPVs on a project finance basis.

#### 4.6. Significant R&D achievements

##### Parent

In accordance with Grupa Azoty's R&D strategy, research projects implemented in 2017 focused on:

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

Most research and development work is carried out as long-term programmes, which is why the work in 2017 was a continuation or extension of then existing projects. In implementing those projects, the Parent closely cooperated with universities and research institutions.

The work carried out in 2017 focused mainly on:

- Enhancing fertilizer product quality through the selection of inorganic additives, as well as anti-dusting and anti-moisture agents, in order to comprehensively protect fertilizers against harmful external factors during transport and storage;
- Assessing the effectiveness of new fertilizer formulas and their impact on the growth of selected crops;
- Expanding the range of modified plastics to include new speciality products;
- Optimising production on the caprolactam line to reduce electricity and heat consumption, and to save on raw materials;

- Continued development work on a technology for the production of a new speciality engineering plastic;
- Conceptual work on possible business diversification into new areas;
- Continued research to develop a production technology for iron catalyst with significantly improved properties.

In March 2017, the Parent received a funding recommendation from the National Centre for Research and Development for a project submitted under the third edition of the Strategic Research and Development Programme 'Environment, Agriculture and Forestry' - BIOSTRATEGIST, designated as 'Injection system of precision irrigation and fertilization, satisfying individual plant needs'. The Parent is a member of the project consortium. In December 2017, an agreement was signed with the National Centre for Research and Development to implement the project, which is currently in progress.

#### **Grupa Azoty KĘDZIERZYN**

In 2017, the company's R&D work focused on:

- Preparing research facilities for the plasticizer application laboratory;
- In cooperation with leading research institutions - developing new fertilizer blends, extending the internal processing chain for OXO synthesis intermediate products and research into new plasticizers and intermediate products for the plastics industry.

The main R&D projects included research into:

- New types of plasticizers (non-phthalates);
- Potential non-alcohol products of butyraldehyde processing (intermediate product of OXO synthesis);
- Extending the range of manufactured plasticizers to include products containing recycled components;
- New compound fertilizers, including products with higher magnesium content;
- Developing a concept for upgrading some sections of the ammonia synthesis unit;
- Developing a concept for increasing the neutralisation unit's capacity and improving the efficiency of nitric acid production;
- Upgrading the water treatment system at the CHP plant;
- Co-financing under the INNOCHEM programme, supervised by the National Centre for Research and Development, was received for the 'New formulations of speciality organic and mineral fertilizers' project;
- Co-financing under the SG OP 2.1 programme, supervised by the Ministry of Development, was received for the project to extend the Research and Development Centre.

#### **Grupa Azoty POLICE**

In 2017, the company's R&D activities focused on:

- Research to develop new and enhance existing technologies,
- Feasibility studies, analyses and expert reports.

The most important research and development projects involved:

- Adjustment of manufacturing processes to the requirements of the proposed new fertilizer regulation. Given the proposed reduction of permitted levels of fertilizer contaminants, the company continued its efforts to improve the quality of its phosphoric acid;
- Continued research into the feasibility of recovering phosphorus from industrial wastewater. It follows the idea of sustainable phosphorus use and assumptions of the Circular Economy. The aim is to develop a technology for recovering phosphorus from phosphogypsum landfill leachate, in the form of compounds that can be recycled or be suitable for direct application as a fertilizer;
- Research into non-toxic phosphate pigments. As part of the project, the company engaged into cooperation with the West Pomeranian University of Technology of Szczecin;
- Laboratory tests of the impact of surface treatment of titanium white with the use of zinc compounds on increasing the biostatic efficiency of the pigment in exterior wall paints and plasters;
- Development of a new NOx<sup>TM</sup> production technology to make the solution manufacturing more cost-effective, while increasing the urea unit's overall efficiency;
- Technological audit of the TCW-1 cooling system optimisation project. The study indicates potential opportunities and project options for improving the cooling system's energy efficiency.

### **Grupa Azoty PUŁAWY**

The scope of work performed at Grupa Azoty PUŁAWY in 2017 included in particular the design of new and development of existing technologies, as well as improvement of products. The research and development work was largely a continuation or extension of the work commenced in previous reporting periods.

The key R&D projects included:

- '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; the project aims at improving efficient resource utilisation by implementing innovative low-carbon agricultural solutions and promoting sustainable application of mineral fertilizers in the Polish agriculture using a life cycle assessment (LCA) method. 2017 was a third year of the project.
- KAPROPOL project designated as 'Development of new synthesis route for production of  $\epsilon$ -caprolactam from cyclohexanone and hydrogen peroxide with the use of chemo-enzymatic catalysis'. The project has strong economics and is being implemented under the INNOCHEM (1.2. SG OP) programme announced by the National Centre for Research and Development in December 2015 (1st edition). It aims to develop a commercially and economically viable method of producing  $\epsilon$ -caprolactone via a catalytic process. 2017 was a second year of the project.
- Grupa Azoty PUŁAWY also continued the 'Development and implementation of advanced process controls for the ammonia unit' project under the INNOCHEM programme. Its expected outcomes will include reduced consumption of materials (high-methane natural gas as the key production input) and energy intensity of the process, improved process safety and reduction of its environmental impact.
- In 2017, Grupa Azoty PUŁAWY received a funding recommendation for the BIO-FERTIL project 'Development of innovative technologies for microbial mineral fertilizers' in the BIOSTRATEG programme's third edition. The aim of the project is to develop innovative microbial fertilizers and to assess the effects of their application for microbiological stimulation of soil fertility and productivity.
- Grupa Azoty PUŁAWY also collaborates with its subsidiaries to create and maximise synergies in shared areas of activity. Examples include joint efforts to improve growth prospects for the fertilizers business and a project carried out with GZNF Fosfory under the P-Thios project designated as 'Development of a technology for the production of potassium thiosulfate using exhaust gases from the sulfuric acid plant and production of potassium thiosulfate-based compound liquid fertilizers'. In the second quarter of 2017, a grant application was submitted with the National Centre for Research and Development under the INNOCHEM II programme to enable the implementation of that research and development work. The project received a positive assessment and was selected as eligible for funding under the programme.

### **Grupa Azoty SIARKOPOL**

Grupa Azoty SIARKOPOL carried out work to develop a method for the production of polyphenylene sulfide, which is an engineering plastic with excellent properties. Preliminary research was completed, and an agreement was signed with the National Centre for Research and Development to refine the technology. Also, the New Chemical Syntheses Institute was commissioned to develop a technology for the production of copper ore flotation additives.

## **5. Financial condition of the Group**

### **5.1. Assessment of factors and one-off events having a material impact on the Group's operations and financial performance**

One-off items affecting the assets, equity and liabilities, capital, net profit/loss or cash flows are presented below.

#### **Impairment losses at Grupa Azoty PUŁAWY's subsidiary - Elektrownia Puławy Sp. z o.o.**

On March 31st 2017, Elektrownia Puławy Sp. z o.o., resolved to close the tender procedure for award of general contract for the construction of a 400 MWe CCGT without selecting a winning bid. The decision was approved by the Grupa Azoty PUŁAWY's Management and Supervisory Boards.



Elektrownia Puławy Sp. z o.o. recognised a PLN 9,113 thousand impairment loss related to the capital expenditure incurred on the project as at March 31st 2017, which had an impact on the Group's consolidated profit or loss.

**Impairment losses recognised by African Investment Group S.A., a subsidiary of Grupa Azoty POLICE**

On August 1st 2017, African Investment Group S.A. resolved to recognise an impairment loss on its exploration and evaluation assets as a correction of prior period error, in an amount of XOF 4,241,955 thousand (equivalent of PLN 28,349 thousand, as translated at the average exchange rate for the period of 12 months ended December 31st 2016). The write-down of PLN (28,349 thousand) was recognised as a correction of prior period error under costs of the previous year in the consolidated financial statements for the first half of 2017.

Moreover, on March 7th 2018, the Management Board of Grupa Azoty POLICE resolved to recognise as at December 31st 2017 an impairment loss for the entire amount of intangible assets classified as exploration and evaluation assets relating to African Investment Group S.A., in an amount of XOF 5,854,799 thousand (equivalent of PLN 37,178 thousand, as translated at the mid exchange rate as at December 31st 2017). The impairment loss was recognised in connection with the lack of consummation of the conditional agreement (settlement) concluded with DGG ECO sp. o.o. in order to obtain reimbursement of the purchase price for shares in African Investment Group S.A.; the consummation could have confirmed the value of exploration and appraisal assets disclosed in the consolidated financial statements.

**Impairment loss recognised by Zakłady Azotowe Chorzów S.A., a subsidiary of Grupa Azoty PUŁAWY**

On August 4th 2017, the management board of Zakłady Azotowe Chorzów S.A. passed a resolution to recognise a PLN 14.7m impairment loss on the assets of the fat processing unit. In accordance with 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 fat processing unit continues to operate below its full processing capacity. While the company recently recorded an increase in the average selling price of its main oleochemicals, prices of the key raw material (liquid animal fat) remain high, which significantly limits the company's ability to generate cash inflows from the sale of stearine 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 the decision to recognise another impairment loss on the assets of the fat processing unit.

The effect on consolidated EBIT of the Grupa Azoty Group was PLN (14.7m), and was recognised in the Group's consolidated financial statements for the first half of 2017.

It was another impairment loss on the assets of the fat processing unit of Zakłady Azotowe Chorzów S.A. The first impairment loss of PLN 18.4m was recognised in the financial statements for 2015. The second impairment loss, of PLN 10m, was accounted for in the financial statements for 2016.

In Q3 2017, Zakłady Azotowe Chorzów S.A. recognised an impairment loss on rolling stock of PLN 46.7 thousand relating to prospective sale, planned for Q4 2017, of seven tank wagons that had been withdrawn from service, to reflect the difference between their carrying amount and the planned selling price, determined through a tender process. The transaction was completed in October 2017. On August 16th 2017, the Extraordinary General Meeting of Zakłady Azotowe Chorzów S.A. passed a resolution to approve the remedial programme for 2017-2027, and a resolution concerning the company's continued existence.

**Decision of the President of the Energy Regulatory Office**

On December 22nd 2017, the President of the Energy Regulatory Office issued a decision precluding Grupa Azoty KĘDZIERZYN from exercising the rights referred to in Art. 53.1 and Art. 96.2 of the RES Act in 2017-2021.

Accordingly, the President included Grupa Azoty KĘDZIERZYN in the sanctions list specified in Art. 55 and Art. 188a.5 of the RES Act. The estimated amounts of additional costs of the sanctions are as follows: PLN 1,130 thousand in 2017 and approximately PLN 751 thousand in 2018.

**Impairment loss recognised by Agrochem Sp. z o.o, a subsidiary of Grupa Azoty PUŁAWY**

As at December 31st 2017, AGROCHEM Sp. z o.o. of Dobre Miasto recognised an impairment loss on receivables with a high probability of being uncollectible, totalling PLN 12.5m. The impairment loss charged to the consolidated profit or loss was PLN 12m.

#### **Impairment loss recognised at the subsidiary Grupa Azoty SIARKOPOL**

On March 26th 2018, the Parent's Management Board resolved to recognise an impairment loss in the issuer's separate financial statements for the value of Grupa Azoty SIARKOPOL shares, as an adjustment of profit or loss brought forward in the total amount of PLN -24.6m, and as an impairment loss charged to 2017 profit or loss in the amount of PLN (18.1)m.

The impact of that event on the Parent's separate performance in 2017 was PLN (18.1)m charged to net profit/(loss).

After indications of impairment were identified, impairment tests were performed at the subsidiary Grupa Azoty SIARKOPOL and analysis of the recoverable sulfur volumes was made. Following these tests and analyses, the Parent's Management Board decided to recognise the following impairment losses in the Parent's consolidated financial statements:

- impairment loss on the assets of the Mineral Extraction segment in the amount of PLN (9.7)m, whose impact on the 2017 consolidated profit/(loss) adjusted for deferred tax will total PLN (7.9)m;
- impairment loss on the assets in the form of a sulfur deposit, as an adjustment of profit or loss brought forward, in the total amount of PLN (30.4)m. After taking into account deferred tax, the impact on profit or loss brought forward will be PLN 24.6m.

The appraised deposits as at the date of acquisition of Grupa Azoty SIARKOPOL are presented under assets in the Parent's consolidated financial statements.

#### **Volatility of exchange rates**

The key factors and events with bearing on the Grupa Azoty Group's financial results for 2017 included acceleration of the GDP growth, falling unemployment and good condition of the state finances, coupled with the strong growth of and good prospects for the US and eurozone economies.

At the same time, an upward trend in the EUR/USD exchange rate which emerged and continued in 2017 brought about parallel significant strengthening of PLN against USD and, to a lesser extent, also against EUR, after a period of weakening observed in 2016.

Overall, in 2017, the Polish currency strengthened by approximately 3.4% against the euro and by 4.7% against the US dollar on the year-end 2016. At the same time, in 2017 the average PLN/EUR exchange rate strengthened by about 2.4%, and PLN/USD - by about 4.2% on the respective 2016 average rates.

The gradual strengthening of the Polish currency against both the US dollar and euro did not materially affect the Group's results thanks to instruments used to limit its net currency exposure.

In 2017, the Group used hedging instruments in the form of EUR and USD swap forwards, as an addition to the contracts executed in 2016, reflecting its planned net exposure in both currencies and an increased share of natural hedging against EUR.

The Group's result on hedging transactions in 2017 was a net gain of PLN 24,114 thousand. Also its result on revaluation of hedging instruments was a net gain of PLN 7,544 thousand.

In 2017, the Group's total result on the settlement and revaluation of currency hedges was a net gain of PLN 31,658 thousand.

On the unhedged net currency exposure, the Group reported a net loss on realised and unrealised foreign-exchange differences of PLN (41,631) thousand.

In 2017, the Group's total result on foreign exchange differences and currency derivative transactions (including revaluation as at the end of the reporting period) was a net loss of PLN (9,973) thousand.

The strengthening of the average PLN exchange rates against EUR and USD in 2017, unfavourable to the Group, was recorded after the Polish currency's earlier weakening in 2016, when the Group concluded hedging transactions with horizons of up to one year. Thus, losses made by the Group in 2017 on currency transactions and foreign-exchange differences were largely offset by gains on revaluation and settlement of currency forwards in that period.

In 2018, analysts expect further weakening of the US dollar against other currencies, which may translate into further appreciation of the Polish zloty against the US dollar and its moderate appreciation or stabilisation against EUR.

In 2017, the Parent's hedging tools were EUR swap forwards, reflecting its planned net exposure.

The result on hedging transactions settled by the Parent was a net gain of PLN 5,031 thousand in 2017. Also the result on revaluation of hedging financial instruments was a net gain of PLN 2,179 thousand.

On the unhedged net currency exposure, the Parent reported a realised foreign exchange loss of PLN (3,404) thousand, and a net loss on unrealised foreign exchange differences of PLN (3,540) thousand.

In 2017, the Parent's total result on foreign exchange differences and currency derivatives (including revaluation as at the reporting date) was PLN 267 thousand (including PLN 7,210 thousand on realised

foreign exchange differences and currency hedging transactions, and PLN (6,943) thousand on unrealised items and revaluation of hedges).

Since September 28th 2015, the Group has applied cash flow hedge accounting. The hedged items are highly probable future proceeds from sale transactions in the euro, which will be recognised in profit or loss in the period from December 2018 to June 2025. The risk being hedged against is the currency risk. The hedge is a euro-denominated credit facility of EUR 127,134 thousand as at December 31st 2017, repayable from December 2018 to June 2025 in 14 equal half-yearly instalments of EUR 9,081 thousand each. As at December 31st 2017, the fair value of the facility was PLN 535,490 thousand and the hedging reserve included PLN 19,022 thousand on account of the effective hedge. In 2017, the Group did not reclassify any hedge accounting amounts from other comprehensive income to the statement of profit or loss.

#### Prices of CO<sub>2</sub> emission allowances

In the first half of 2017, prices of CO<sub>2</sub> emission allowances fell markedly, to rebound in the second half of the year.

Some of the EUA transactions were executed by the Group at the time when the allowances were trading low, which had a positive effect on total valuations of the Group's CO<sub>2</sub> futures at the end of the period.

For 2018, most experts forecast a gradual increase in the prices of CO<sub>2</sub> emission allowances triggered by the expected reform of the EU ETS designed to reduce the oversupply of allowances on the market, which the Group has taken into account in its business plans.

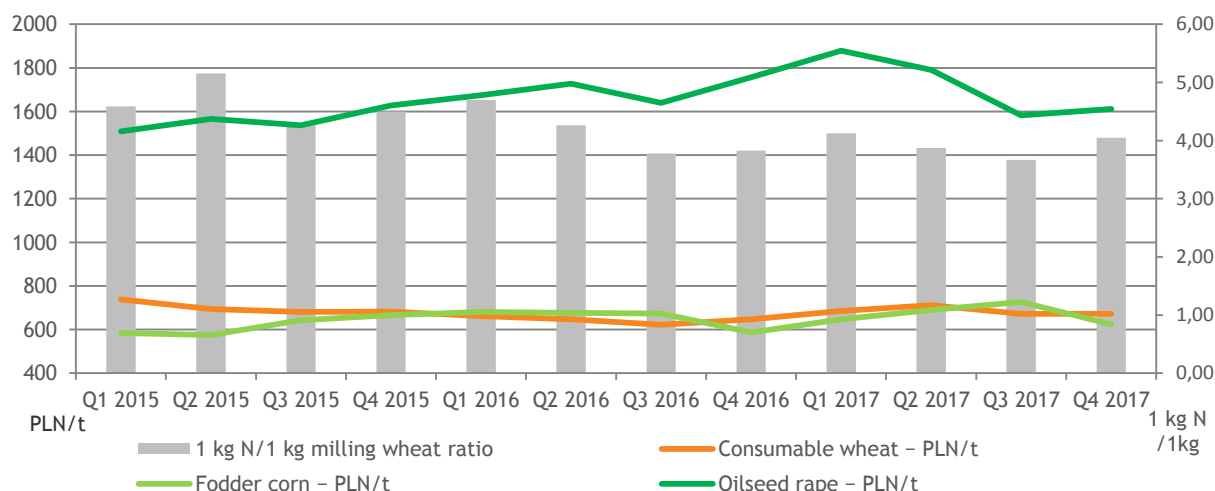
## 5.2. Market overview

### AGRO FERTILIZERS

#### Economic conditions in agriculture

As a result of high levels of grain production recorded in Poland and globally for another consecutive year in 2017, strong supply-side pressures inhibited price growth. Nevertheless, grain prices rose moderately year on year. Based on GUS data for December 2017, grain production in Poland was estimated at 32.2m tonnes, up 8% year on year. Another important factor affecting the conditions in agriculture was the weather, which had a particularly adverse impact on the grain harvest and winter crop planting. A rainy autumn caused delays in winter crop planting, leading to a marginal decrease of the area planted. A logical conclusion is that the area planted to slightly lower yielding spring crops will be relatively larger in 2018. According to current forecasts, grain yields in Poland are expected to be 1.5% lower in 2018.

#### Prices of wheat, corn and oilseed rape



Source: Ministry of Agriculture and Rural Development.

Compared with 2016, the prices of wheat, corn and oilseed rape increased in 2017 (see the table below).

|                  | Average<br>2016<br>PLN/t | Average<br>2017<br>PLN/t | y/y<br>% | 12-2017<br>PLN/t | MIN<br>2017<br>PLN/t | MAX<br>2017<br>PLN/t |
|------------------|--------------------------|--------------------------|----------|------------------|----------------------|----------------------|
| Consumable wheat | 645                      | 686                      | 6        | 683              | 644                  | 729                  |
| Corn             | 654                      | 672                      | 3        | 610              | 610                  | 737                  |
| Rapeseed         | 1,700                    | 1,715                    | 1        | 1,636            | 1,573                | 1,890                |

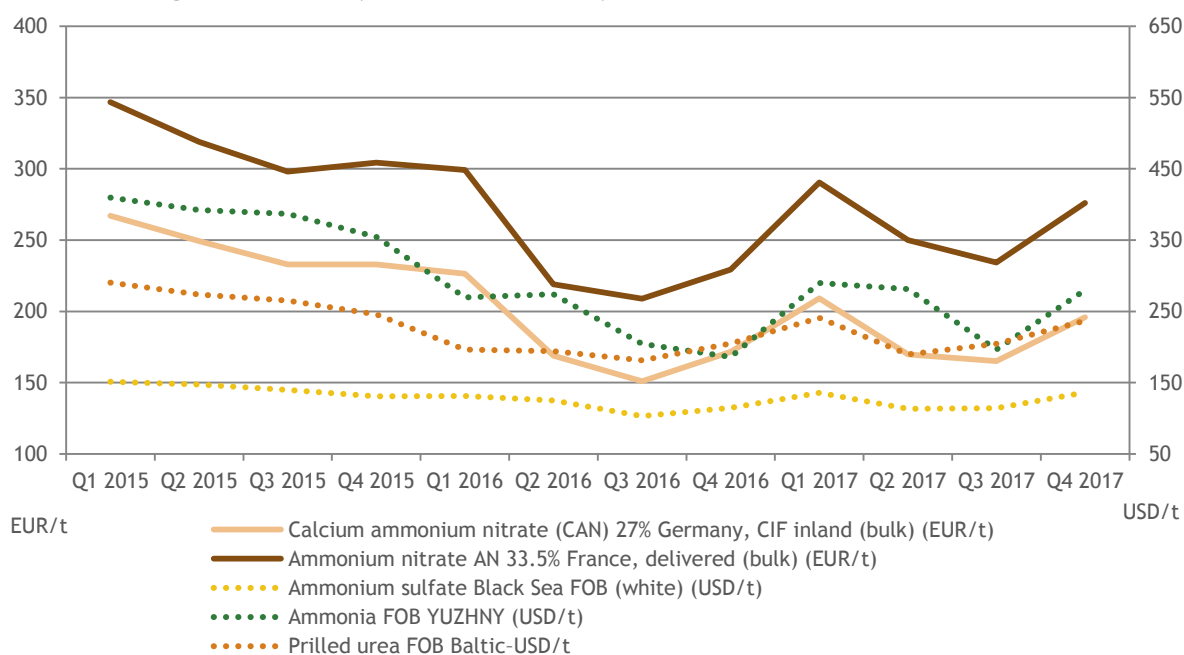
Source: Ministry of Agriculture and Rural Development.

Grain prices in Poland will follow global trends, which will largely be driven by strong agricultural production in 2017. A gradual build-up of grain stocks globally will hold up prices. The activities of global grain producers will also have an impact. The leader in the 2017/2018 marketing season is Russia with wheat export capacity of 33m tonnes.

### Nitrogen fertilizers

The distribution of demand for nitrogen fertilizers in 2017 was as usual, peaking in the spring season due to easy product availability and falling prices. The key drivers of demand in autumn included the weather, conditions in the urea market and suppliers' sales policies. No significant stock build-up by farmers was observed during the year, reflecting the prevailing market conditions. Stocks were used to cover current demand. Price lows were recorded in the third quarter of 2017, which is typical of this market segment. Subsequently the prices rebounded, driven by the situation in Western European markets.

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



Source: ICIS, Argus FMB, Profercy.

In Q1-Q3 2017, ammonia prices were on a downward trend, due to a continued market slowdown. In Q4 2017, ammonia prices were driven up by higher demand, accompanied by limited availability of the product on global markets (production issues, maintenance shutdowns). Year on year, the prices increased by around 12%,

and are expected to remain on a similar trend in 2018. In 2018, the ammonia market will continue to be oversupplied globally, which will largely affect the forecast prices of ammonia in that period. Ammonia prices are expected to peak in the first half of 2018 and then decline slightly. Year on year, ammonia prices in 2018 are likely to be higher by approximately 5% relative to the reporting period. In 2017, the prices of urea remained under pressure from global oversupply. Nevertheless, they rose slightly year on year compared with 2016 (e.g. an increase of approximately 12% on FOB Baltic). Urea exports from China, at only 4.5m tonnes in 2017 (down from 8-13m tonnes in previous years), and

increased demand for urea from India and Brazil, were among the factors that pushed up the prices of urea in the reporting period.

No major changes on the urea market are expected in 2018. The market activity of key players should remain unchanged. Urea oversupply will continue to keep any sharp price increases in check. In this case, further developments may largely depend on a change in China's trade balance (from net exporter to net importer).

The prices of nitrate fertilizers increased year on year, and their significant rise in Q4 2017 was attributable both to market players' sales policies and situation on the global market of urea.

In 2017, the average prices of all nitrogen fertilizers on international markets increased year on year.

|   | Average<br>2016<br>EUR/t | Average<br>2017<br>EUR/t | y/y<br>% | 12-2017<br>EUR/t | MIN<br>2017<br>EUR/t | MAX<br>2017<br>EUR/t |
|---|--------------------------|--------------------------|----------|------------------|----------------------|----------------------|
| CAN 27% Germany CIF inland<br>(bulk)      | 179                      | 185                      | 3        | 201              | 158                  | 210                  |
| AN 33.5% France, delivered<br>(bulk)      | 239                      | 263                      | 10       | 281              | 222                  | 294                  |
|   | USD/t                    | USD/t                    | %        | USD/t            | USD/t                | USD/t                |
| Ammonia (FOB Yuzhny)                      | 233                      | 262                      | 12       | 318              | 190                  | 318                  |
| Urea (FOB Baltic)                         | 194                      | 218                      | 12       | 217              | 182                  | 256                  |
| Ammonium sulfate (Black Sea<br>FOB white) | 119                      | 125                      | 5        | 133              | 109                  | 140                  |

Source: ICIS, Argus FMB, Profercy.

In 2018, the prices of nitrate fertilizers will remain under heavy pressure from the global urea market and distribution of demand for nitrate fertilizers, especially in spring. The sales policies of major market players will also be an important factor. Increases in the prices of nitrate fertilizers, projected for the first quarter of 2018, will be rather moderate with a trend towards stability. They may change more steeply later on, especially towards the end of the spring fertilizer season. Demand in the first half of 2018 is expected to remain stably moderate, depending on the level of coverage of demand for fertilizers for the spring application season.

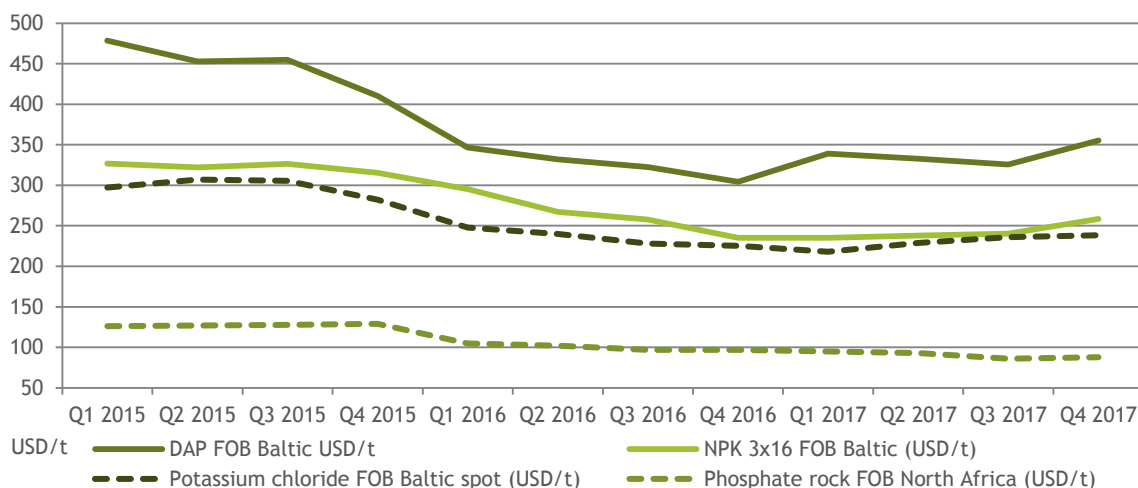
#### Market of compound fertilizers

In 2017, Poland's compound fertilizers (NPK) market, except for seasonal periods of increased purchases, saw limited demand. Bad weather conditions throughout 2017 - frosts in spring, followed by heavy rainfalls during the harvest season and in autumn - damaged many plantations, forcing farmers to incur additional expenditure. On the other hand, farmers' incomes were lower in 2017, as prices of most agricultural produce declined due, among other factors, to strong harvests outside Europe. Lower incomes prompted many farmers to buy less expensive, low-concentration fertilizers from Polish manufacturers, or cheap imported products.

Weak demand for NPK fertilizers across European markets, continuing largely throughout 2017, was offset by cyclically and seasonally higher sales, combined with seasonal maintenance shutdowns of production units. Demand also grew for NPK blends, as their prices are 10%-15% lower than the prices of compound NPK fertilizers.

The fast growing Russian agricultural sector is consuming increasing amounts of fertilizers, including NPK products. Sales of NPK fertilizers in Russia are estimated to have grown in 2017 by 13%-15% year on year. From May to August, approximately 200,000 tonnes of NPK fertilizers were sold on the domestic market each month, with sales gradually declining from September towards the year's end. Throughout 2017, NPK Baltic FOB prices continued on an upward trend, albeit the average price of NPK fertilizers went down 8% year on year. In spring 2018, the prices of NPK fertilizers may grow slightly. In the second half of 2018, their level will depend on crops and prices of agricultural produce, but no significant changes are expected.

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



Source: WFM, FERTECON, Profercy.

|   | Average<br>2016<br>USD/t | Average<br>2017<br>USD/t | y/y<br>% | 12-2017<br>USD/t | MIN<br>2017<br>USD/t | MAX<br>2017<br>USD/t |
|---|--------------------------|--------------------------|----------|------------------|----------------------|----------------------|
| DAP (FOB Baltic)                        | 326                      | 338                      | 4        | 365              | 317                  | 365                  |
| NPK 3x16 (FOB Baltic)                   | 264                      | 243                      | (8)↓     | 256              | 235                  | 260                  |
| Potassium chloride (FOB<br>Baltic spot) | 235                      | 230                      | (2)↓     | 239              | 215                  | 239                  |
| Phosphate rock (FOB<br>North Africa)    | 100                      | 91                       | (10)↓    | 88               | 86                   | 97                   |

Source: WFM, FERTECON, Profercy.

DAP sales picked up at the beginning of 2018 largely as a result of low stocks accumulated ahead of the 2017 spring sowing season. High demand for DAP in spring pushed up its prices by 10%. After the spring season, most global manufacturers started to lower the price in order to sell their output. In March-September, DAP prices declined by about 7%, but in Q4 2017 they were again on an upward trend (+13%), driven by growing demand from markets such as: the US, Brazil, Canada, China, Europe, Pakistan, Japan, and Australia. It should also be noted that in September 2017 some DAP capacities in the US were taken off stream for a long time due to hurricane damage.

Significant events took place in late 2017 that will affect the global DAP market in 2018.

They included a shutdown, for one year, of production units by a major DAP manufacturer, as well as expected shutdowns of DAP capacities and output reduction in China. Further lines of a new production unit (with an annual capacity of 3m tonnes) were being commissioned in Saudi Arabia. In Q4 2017, the construction of a new DAP unit (with an annual capacity of 1m tonnes) was completed in Morocco, its launch scheduled for the first quarter of 2018.

In 2018, DAP prices will be shaped by supply factors. The spring may see seasonal price hikes, but later on in the year price levels are difficult to predict given both the new production capacities coming on stream and the shutdowns of existing units.

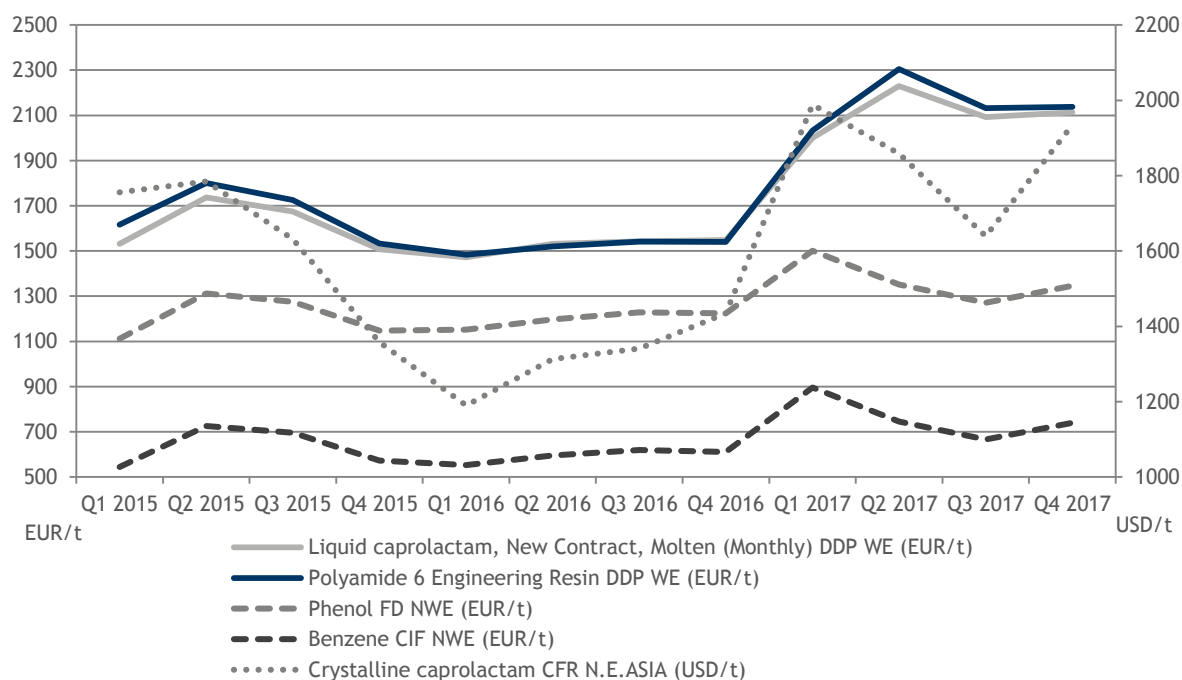
A downward trend in phosphorite prices began in late 2016 and continued through Q3 2017. It was only at the beginning of the fourth quarter of 2017 that the majority of phosphorite suppliers decided to slightly raise the prices. In China, the world's largest producer of phosphate rock, certain restrictions were imposed on phosphate mines following the government's environmental inspections, reducing both output and supply. China, which is self-sufficient in terms of phosphate rock production, began to experience an undersupply in the fourth quarter of 2017.

The prices of potassium chloride on most global markets grew practically throughout 2017, despite reduced demand from NPK fertilizer manufacturers. In Europe, demand for potassium chloride remained weak, and its prices increased slightly only at the beginning and the end of 2017. Higher prices of potassium chloride on global markets were mainly attributable to significant production cuts (at the beginning and end of the year) and the concerted policy of an informal cartel of its largest producers. Brazil remained the only large market with sustainably strong demand for potassium chloride. Increased demand for the product was seen from time to time in the US, Indonesia, Malaysia,

Vietnam, and the Philippines. Sales of potassium chloride surged in the second half of 2017, when large contracts for its supplies to China and India were signed by leading producers. In 2018, the prices of feedstocks for the production of NPK fertilizers and DAP (phosphate rock, sulfur, and potassium chloride) are expected to stabilise or edge up.

## PLASTICS

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



Source: TECNON, ICIS.

In the reporting period, the segment's market situation continued to be shaped by the supply, demand and oil prices. They markedly boosted the petrochemical feedstock prices along the entire polyamide chain.

The increase in oil prices of 22% year on year fully translated into prices of benzene (up 28%) and caprolactam, which exerted significant pressure on prices of polyamide (PA6).

|                             | Average<br>2016<br>EUR/t | Average<br>2017<br>EUR/t | y/y<br>% | 12-2017<br>EUR/t | MIN<br>2017<br>EUR/t | MAX<br>2017<br>EUR/t |
|-----------------------------|--------------------------|--------------------------|----------|------------------|----------------------|----------------------|
| Benzene (FOB NWE)           | 594                      | 762                      | 28       | 847              | 645                  | 983                  |
| Phenol (FD NWE)             | 1,201                    | 1,376                    | 14       | 1,454            | 1,252                | 1,590                |
| Caprolactam (Liq., DDP WE)  | 1,524                    | 2,109                    | 38       | 2,193            | 1,800                | 2,243                |
| Polyamide 6 (PA 6) (DDP WE) | 1,521                    | 2,152                    | 41       | 2,205            | 1,800                | 2,325                |
|                             | USD/t                    | USD/t                    | %        | USD/t            | USD/t                | USD/t                |
| Caprolactam (CFR, NE Asia)  | 1,320                    | 1,855                    | 41       | 2,065            | 1,550                | 2,308                |
|                             | USD/bbl                  | USD/bbl                  | %        | USD/bbl          | USD/bbl              | USD/bbl              |
| Crude oil (BRENT)           | 44.44                    | 54.32                    | 22       | 63.57            | 47.84                | 63.57                |

Source: ICIS, Tecnon, Rzeczpospolita.

The average annual prices of phenol increased slightly less sharply, by 14% (FD NWE), an effect of the movements in oil prices but also of seasonal fluctuations in price trends and stable demand.

The average annual price of caprolactam from Asian markets, i.e. EUR 1,855 per tonne in 2017 (CFR NE Asia), was higher than in the previous year by as much as 41%. The price of caprolactam on the European market rose 38% over the period, to EUR 2,109 per tonne.

Capitalising on the global price increase along the entire polyamide 6 chain, manufacturers delivered on their growth and profitability improvement plans, previously constrained by structural oversupply and prices of petrochemical feedstocks. This was supported by favourable conditions in the automotive and textile industries, which clearly improved the trade balance.

Increasing demand for plastics, coupled with the previous year's growth in prices, should provide a sound basis for price stabilisation in the key market segments. In addition, a possible increase in consumption may be susceptible to periodic price fluctuations and the supply-demand structure, which is directly related to possible restrictions in the availability of raw materials on markets linked with Europe (mainly Asia).

Like in previous periods, long-term forecasts do not suggest any threat from the Asian market to European manufacturers but only indicate that the region's production capacities are sufficient to meet its demand for PA6. Thus, the Asian markets' impact on Europe should only lead to reorientation of caprolactam exports, while the polyamide market will not be affected to any significant degree.

However, caprolactam assets in Europe still need to be restructured and optimised towards a considerable reduction of the production capacities. The extent of the European market's rightsizing will depend solely on the consumption levels along the entire product chain in Europe.

The continuing strong demand for PA6 in Europe was driven mainly by the automotive and construction industries. The overall structure of demand for PA6 is expected to change, mainly because of the growing significance of engineering plastics, foil and flexible packaging. Therefore, within the next decade the automotive industry will be the main customer for polyamide-based engineering plastics. The polyamide producers' exposure to the transport sector is very high and may be expected to increase even more.

The polyamide oversupply in the European market was meaningfully reduced, which clearly improved the trade balance thanks to favourable conditions in these areas. On the other hand, an increase in PA6 capacities in Europe may render the market tougher, causing a shift in the region's supply-demand structure.

In 2017, the average price of polyamide 6 (PA6, Engineering Resin Virgin, DDP, WE) was EUR 2,152 per tonne, having increased considerably (by 41%) year on year.

In the near future, the prices of products and raw materials used by the segment will still be largely affected by two factors: possible commodity pressures (depending on the oil price scenario) and the balance of supply and demand in the plastics processing industry (shaped by the GDP growth rate, expected by the IMF to reach 3.3% globally).

Stabilisation of prices along the entire chain and strong demand would create a favourable environment for the restoration of market equilibrium in the sector, thus supporting an anticipated further increase in demand for plastics, not hampered by other factors.

## CHEMICALS

### OXO product chain

In 2017, the supply of OXO products in Europe was severely limited, due to failures and shutdowns at key manufacturers. That situation was different than in 2016, when the market was described as oversupplied and manufacturers were forced to display a high level of competitiveness.

In 2017, demand in the sector was considered high in almost all processing segments, with a slight but noticeable slowdown in the second half of the year, caused by holiday shutdowns. The prices of OXO alcohols and plasticizers were on the rise, especially in the first half of 2017, driven by the continued supply constraints, strong demand and growing propylene prices.

According to forecasts, demand for OXO alcohols and plasticizers is expected to keep rising, in line with GDP rates across Europe.

After the supply of butanols remained limited in 2017, the supply-demand balance in Europe will fuel competition between suppliers in 2018. This will also affect the OXO alcohol market in general, including the market of 2-EH and its prices. In 2018, prices of OXO alcohols are expected to return to the levels reported before the supply constraints caused by *force majeure* in previous periods and will be more closely correlated with prices of propylene.

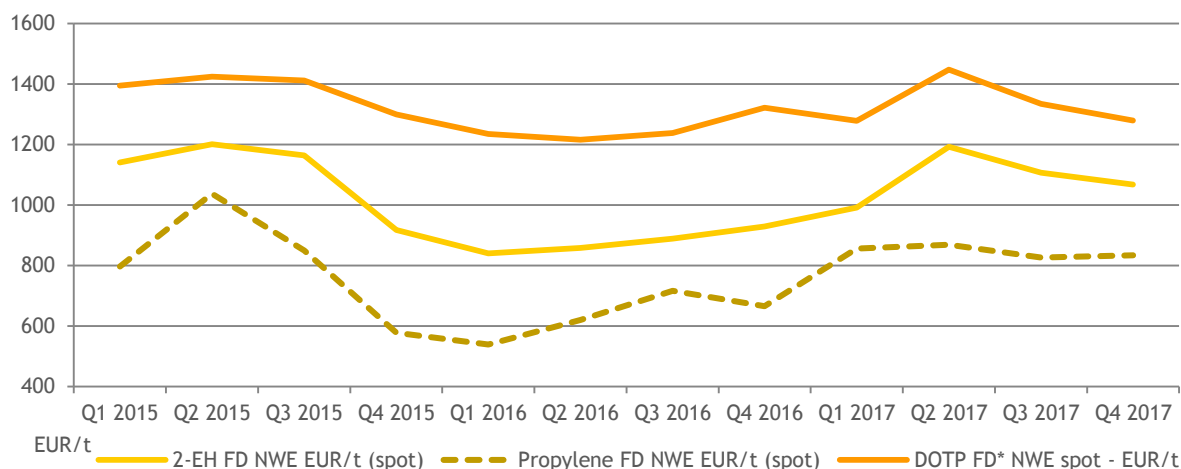
Demand for plasticizers has been rising steadily in recent years, a trend that is forecast to continue in the near future.

The increase in crude oil prices on global markets in 2017 also translated into higher propylene prices, which rose by an average of 33% year on year on the spot market. In the first quarter of 2017, propylene prices were additionally boosted by lower availability of the product, resulting from scheduled and unscheduled shutdowns at some manufacturers. In the middle of the second quarter of 2017, the availability of propylene improved significantly, which, coupled with a decline in demand



during the holiday season, drove the prices down. Towards the end of the year, propylene prices began to rise again on growing demand and a further increase in crude oil prices on the market.

### Prices of 2-EH, DOTP and propylene



\* January 18th 2017 - The changes in DOTP prices were caused by alteration of the price gathering methodology applied by ICIS (which was revised to better present the actual market prices) and should not be viewed as an indication of an actual change in the plasticizer prices.

Source: ICIS.

Propylene prices depend very much on prices of crude oil and naphtha. Forecasts show that a slight oversupply of oil should continue on the market in the first half of 2018 (despite output quotas imposed by OPEC), and thus the impact of growing oil prices on prices of propylene will not be very pronounced.

|                         | Average<br>2016<br>EUR/t | Average<br>2017<br>EUR/t | y/y<br>% | 12-2017<br>EUR/t | MIN<br>2017<br>EUR/t | MAX<br>2017<br>EUR/t |
|-------------------------|--------------------------|--------------------------|----------|------------------|----------------------|----------------------|
| 2-EH (FD NWE spot)      | 879                      | 1,089                    | 24       | 1,050            | 929                  | 1,213                |
| DOTP (FD NWE spot)      | 1,252                    | 1,340                    | -        | 1,277            | 1,208                | 1,507                |
| Propylene (FD NWE spot) | 635                      | 846                      | 33       | 833              | 725                  | 1,007                |

\* Data not comparable due to change of methodology.

Source: ICIS.

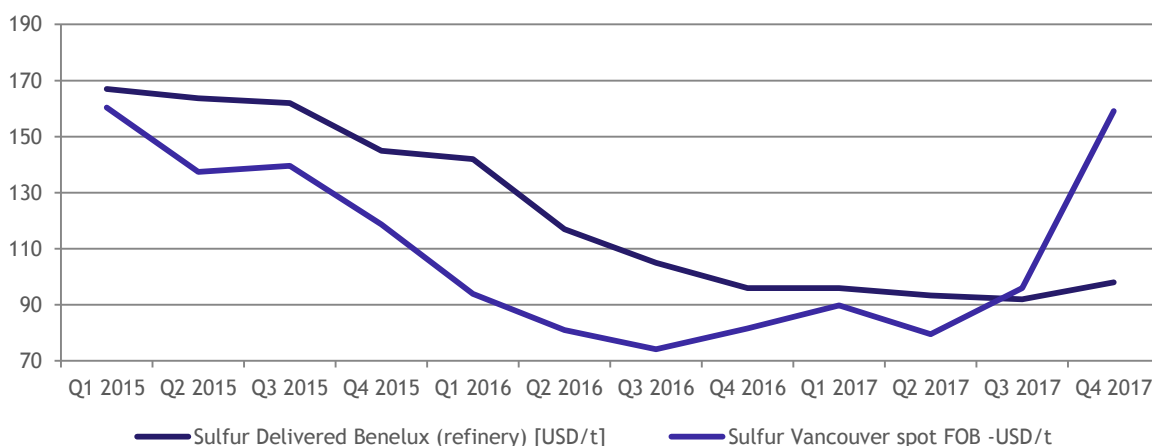
In the first half of 2018, the supply-demand situation may deteriorate slightly, as demand for propylene rises and planned maintenance shutdowns take place at some manufacturers. This may lead to further growth in propylene prices. In the second half of the year, the product's availability on the market is expected to improve gradually, pushing the prices down.

After an initial increase, a gradual decline in propylene prices is expected, to approximately EUR 740 per tonne. At the end of the year, they may rise again, to EUR 800-EUR 820 per tonne.

### Sulfur

In the first half of 2017, prices of sulfur fell on most global markets, while in the second half of the year an upward trend set in, led by growing demand but also limited supply. The increase in demand was due to greater workloads of China's phosphate fertilizer plants and the launch of new fertilizer capacities in Saudi Arabia and Morocco. The lower supply was a result of delayed commissioning of several large desulfurisation units, reduced output in the US (caused by hurricanes), technical issues in Canada, and logistics problems in Russia.

### Prices of sulfur



Source: FERTECON.

|                                     | Average<br>2016<br>USD/t | Average<br>2017<br>USD/t | y/y<br>% | 12-2017<br>USD/t | MIN<br>2017<br>USD/t | MAX<br>2017<br>USD/t |
|-------------------------------------|--------------------------|--------------------------|----------|------------------|----------------------|----------------------|
| Sulfur (Delivered Benelux refinery) | 115                      | 95                       | (18)↓    | 98               | 92                   | 98                   |
| Sulfur (Vancouver spot FOB)         | 83                       | 106                      | 28       | 173              | 74                   | 175                  |

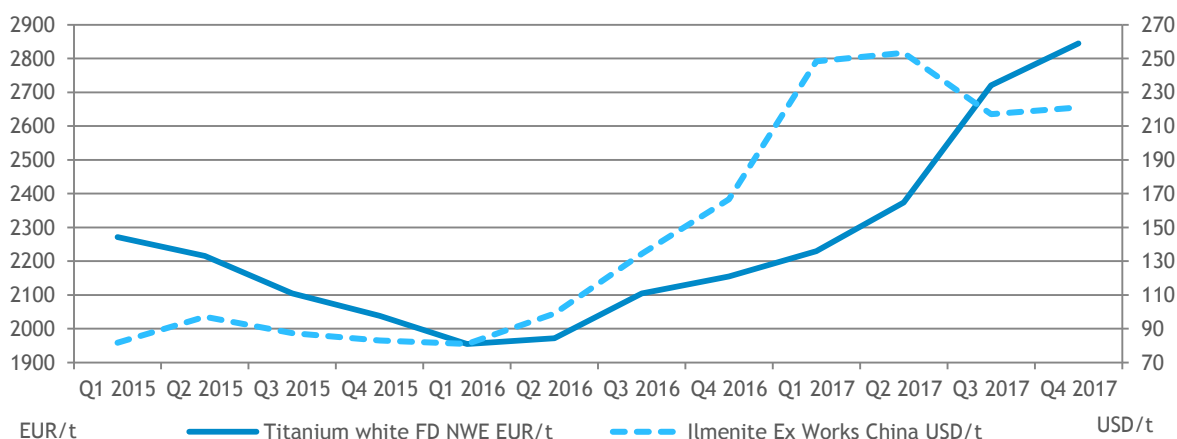
Source: FERTECON.

In 2018, sulfur prices are expected to remain stable or inch up.

#### Pigment chain

Throughout 2017, the prices of titanium white went up across all global markets. The increase was mainly due to lower production, seasonally and cyclically driven growth in demand, and low stocks kept by manufacturers. The decline in output resulted from closure of a number of titanium white plants over the last few years and a severe failure of a production plant in Finland, covering about 10% of European demand. Moreover, around 15% of China's production plants were decommissioned for environmental reasons, and Chinese capacities represent 30% of the world's total. Titanium white prices have been growing steadily since 2016, and have now reached their historical highs. In 2018, however, they are expected to stabilise.

#### Prices of titanium white and ilmenite



Source: ICIS, CCM.

In 2017, on the representative Chinese market, prices of raw materials for titanium white production (slag and ilmenite) fluctuated between strong increases (from January to March and from June to August) and steep declines (the other months). The variations were attributable to environmental inspections in China, resulting in production shutdowns and resumptions. On other markets (e.g. in

Australia), prices of raw materials for titanium white production were on a slowly rising trend. Low prices of these raw materials in recent years resulted in a lack of major investments in new mines.

|                         | Average<br>2016<br>EUR/t | Average<br>2017<br>EUR/t | y/y<br>% | 12-2017<br>EUR/t | MIN<br>2017<br>EUR/t | MAX<br>2017<br>EUR/t |
|-------------------------|--------------------------|--------------------------|----------|------------------|----------------------|----------------------|
| Titanium white FD NWE   | 2,047                    | 2,542                    | 24       | 2,845            | 2,230                | 2,845                |
|                         | USD/t                    | USD/t                    | %        | USD/t            | USD/t                | USD/t                |
| Ilmenite Ex Works China | 120                      | 235                      | 95       | 200              | 200                  | 290                  |

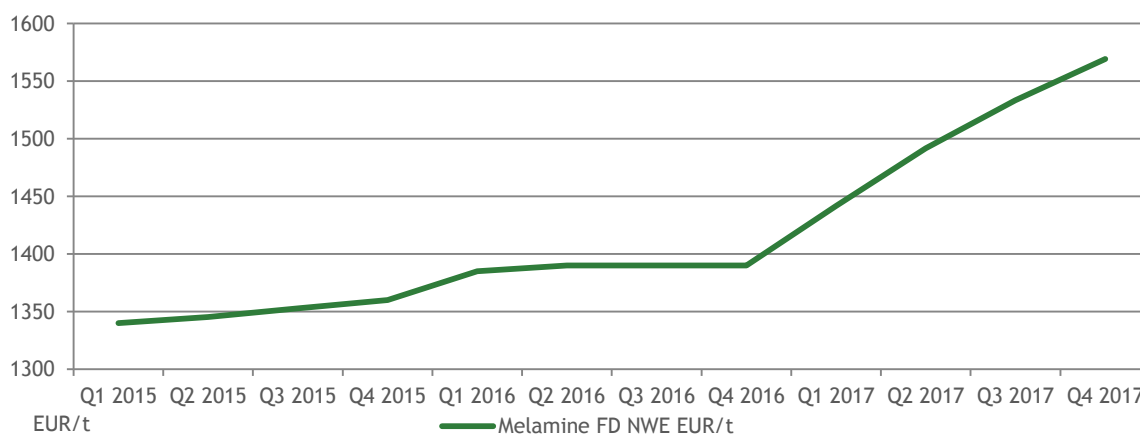
Source: ICIS, CCM.

In 2018, prices of the raw materials in China are expected to stabilise, with minor declines possible. In the case of other sources, the upward trend in prices reported in 2017 is forecast to continue.

### Melamine

In 2017, contract prices of melamine in Europe increased by EUR 120 per tonne (+ 8.6%) compared with 2016, which was attributable to lower supply from China. This in turn resulted from lower availability of natural gas for industrial users and a climate policy forcing manufacturers to cut back production in connection with increased flue gas emissions in the heating season. European manufacturers received orders from countries usually supplied by Chinese companies (South America, Turkey, and Asian countries). In Europe the demand was high and the supply was stable, albeit constrained by ongoing maintenance work.

### Prices of melamine



Source: ICIS, Global Bleaching Chemicals.

|          | Average<br>2016<br>EUR/t | Average<br>2017<br>EUR/t | y/y<br>% | 12-2017<br>EUR/t | MIN<br>2017<br>EUR/t | MAX<br>2017<br>EUR/t |
|----------|--------------------------|--------------------------|----------|------------------|----------------------|----------------------|
| Melamine | 1,389                    | 1,509                    | 9        | 1,575            | 1,425                | 1,575                |

Source: ICIS, Global Bleaching Chemicals.

In the reporting period, maintenance work was carried out by melamine manufacturers from Poland, Austria, the Netherlands, Romania, Russia, Qatar, China and Japan.

Strong demand in the market, coupled with tight supply in China, may undermine the supply stability worldwide, which may lift prices on the European market by EUR 50-75 per tonne in 2018.

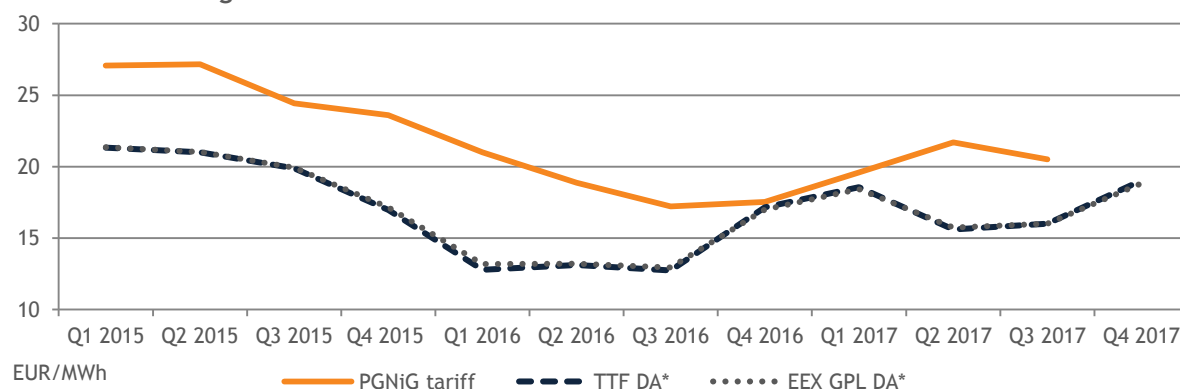
## ENERGY

### 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 2017, the Group purchased 93% of its natural gas from PGNiG S.A. and the remaining 7% from other sources.

After a few years of declines, 2017 saw rising spot prices on the European gas market. The average annual gas prices at Western European hubs increased by more than 20% on 2016. After the cold beginning of the year and fast withdrawal of gas stocks, when prices exceeded EUR 22/MWh, the spring witnessed a price decline. Over the next two quarters, prices trended horizontally around EUR 15-17/MWh, determined by high prices of coal, which was replaced by gas in the energy mix, and high prices of oil, to which a part of long-term contracts and most LNG supplies are indexed. Any surplus was used to replenish stocks. The increase in gas prices was further supported by high demand for electricity and, consequently, for gas, caused by high temperatures in Europe. In August, the prices began to rise, driven by numerous failures and unscheduled shutdowns of gas infrastructure, resulting in limited gas supplies from Norway and Russia. Further price increases were linked to the start of the heating season and increased demand for gas from households, lower supply from the Groningen field, a jump in LNG prices in Asia, and a gas explosion at Austria's Baumgarten hub. Eventually, gas prices returned to the level recorded at the beginning of the year.

### Prices of natural gas



\*Excluding transmission.

Source: PGNiG tariff, ICIS.

In the reporting period, the chart of gas spot prices had a typical sinusoidal shape.

|            | Average<br>2016<br>EUR/MWh | Average<br>2017<br>EUR/MWh | y/y<br>% | 12-2017<br>EUR/MWh | MIN<br>2017<br>EUR/MWh | MAX<br>2017<br>EUR/MWh |
|------------|----------------------------|----------------------------|----------|--------------------|------------------------|------------------------|
| EEX TTF DA | 14.0                       | 17.3                       | 24       | 20.8               | 15.0                   | 20.8                   |
| EX GPL DA  | 14.1                       | 17.3                       | 23       | 20.2               | 15.1                   | 20.2                   |

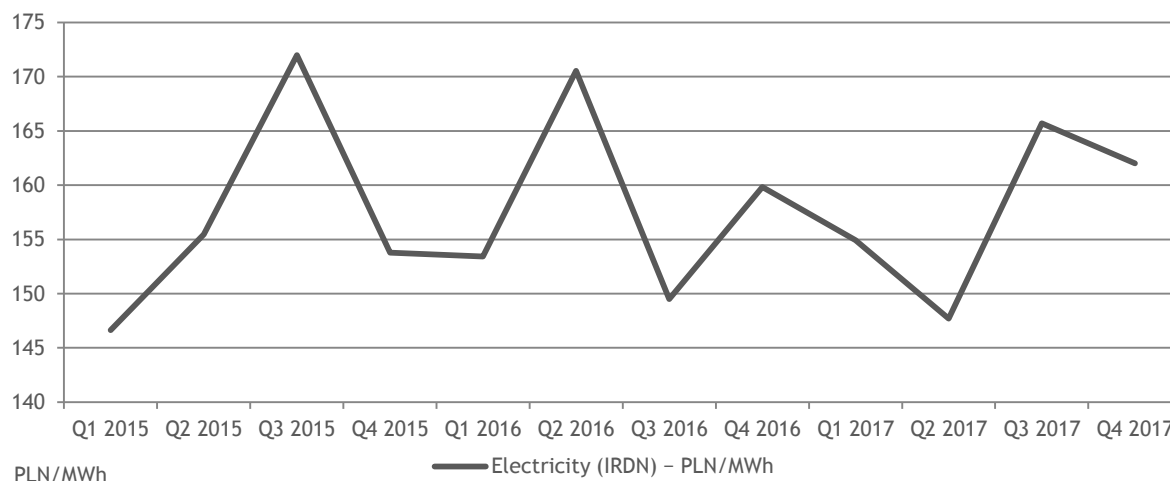
Source: PGNiG tariff, ICIS.

According to the latest forecasts, in 2018 gas prices in Europe will be lower compared with the year before, and will be linked to coal rather than oil prices. At the same time, they are expected to fluctuate within a range determined at the bottom (during an oversupply period) by the variable cost of LNG supplies to Europe, and at the top - by the opportunity cost of using gas instead of coal in power generation. The share of renewable energy sources and their impact on the volatility of spot prices of gas is expected to grow. The decline in prices will be additionally supported by an oversupply of gas related to the rapidly expanding LNG export capacities, which can only be absorbed in Europe given its surplus of available regasification capacities. The second key driver of gas prices will be Russia's export strategy - namely whether it will be focused on maintaining Russia's share in the gas market or on maintaining market prices. In North America, gas prices are expected to remain at last year's level.

### Electricity

In Q4 2017, average electricity prices increased by 1.4% on Q4 2016. However, for the entire year a decline of 3.2% was recorded, which was chiefly a result of a significant drop in prices in the first half of 2017.

## Prices of electricity



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

Source: The Polish Power Exchange.

|             | Average<br>2016<br>PLN/MWh | Average<br>2017<br>PLN/MWh | y/y<br>% | 12-2017<br>PLN/MWh | MIN<br>2017<br>PLN/MWh | MAX<br>2017<br>PLN/MWh |
|-------------|----------------------------|----------------------------|----------|--------------------|------------------------|------------------------|
| Electricity | 160.71                     | 155.56                     | (3.2)    | 147.98             | 95.29                  | 368.63                 |

Source: The Polish Power Exchange.

The Polish market is largely affected by climate regulations and the need to continue upgrading generation capacities (expenditure on new capacities) and to maintain the capacity reserve (effect on production costs).

Electricity prices will be driven by the following factors:

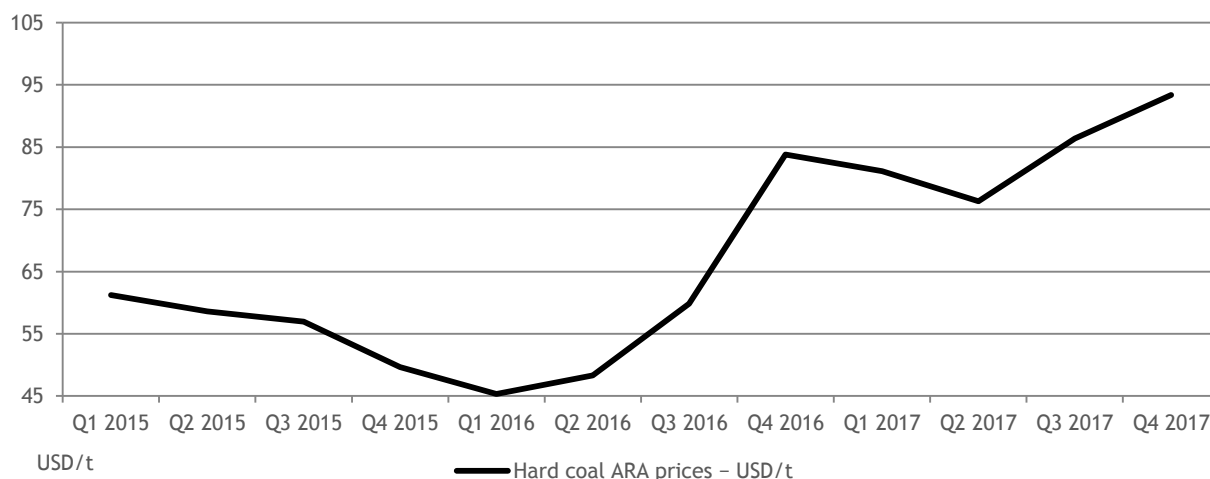
- The ongoing restructuring of the coal sector companies with the participation of power sector companies,
- Continuing high prices of gas,
- Increasingly widespread use of energy efficient solutions leading to reduced electricity consumption,
- Persistently high prices of coal on global and domestic markets,
- Higher prices of CO<sub>2</sub> emission allowances.

Electricity prices are expected to rise slightly during the next 12 months.

## Coal

In Q4 2017, coal prices continued to rise, to more than USD 90 per tonne, up 8% quarter on quarter. The prices increased by 11.6% relative to the corresponding period of the previous year, and as much as 42% for the entire year.

## Prices of hard coal



Source: ARA prices.

|      | Average<br>2016<br>USD/t | Average<br>2017<br>USD/t | y/y<br>% | 12-2017<br>USD/t | MIN<br>2017<br>USD/t | MAX<br>2017<br>USD/t |
|------|--------------------------|--------------------------|----------|------------------|----------------------|----------------------|
| Coal | 59.32                    | 84.25                    | 42       | 94.80            | 71.74                | 95.83                |

Current situation on the global coal market is described as stable, with prices likely to continue at levels reached in December throughout the winter, after which they will come under downward pressure in the context of reduced imports from China. In 2018, analysts expect prices to drop by approximately 10%, to USD 85 per tonne.

### 5.3. Key financial and economic data

#### 5.3.1. Consolidated financial information

In 2017, the Group earned a positive EBITDA of PLN 1,186,886 thousand and net profit of PLN 488,826 thousand.

This means a year-on-year improvement of PLN 238,918 thousand and PLN 173,583 thousand, respectively.

#### Consolidated data

| Item  | 2017             | 2016*            | change         | % change    |
|---|------------------|------------------|----------------|-------------|
| Revenue                                       | 9,617,495        | 8,966,804        | 650,691        | 7.3         |
| Cost of sales                                 | (7,457,734)      | (7,004,483)      | (453,251)      | 6.5         |
| <b>Gross profit</b>                           | <b>2,159,761</b> | <b>1,962,321</b> | <b>197,440</b> | <b>10.1</b> |
| Selling and distribution expenses             | (673,555)        | (669,315)        | (4,240)        | 0.6         |
| Administrative expenses                       | (757,767)        | (727,412)        | (30,355)       | 4.2         |
| <b>Profit from sales</b>                      | <b>728,439</b>   | <b>565,594</b>   | <b>162,845</b> | <b>28.8</b> |
| Net other expenses                            | (131,225)        | (137,990)        | 6,765          | (4.9)       |
| <b>Operating profit</b>                       | <b>597,214</b>   | <b>427,604</b>   | <b>169,610</b> | <b>39.7</b> |
| Net finance income/(costs)                    | (36,824)         | (10,698)         | (26,126)       | 244.2       |
| Share of profit of equity-accounted investees | 16,015           | 15,170           | 845            | 5.6         |
| <b>Profit before tax</b>                      | <b>576,405</b>   | <b>432,076</b>   | <b>144,329</b> | <b>33.4</b> |
| Income tax                                    | (87,579)         | (116,833)        | 29,254         | (25.0)      |
| <b>Net profit</b>                             | <b>488,826</b>   | <b>315,243</b>   | <b>173,583</b> | <b>55.1</b> |
| <b>EBIT</b>                                   | <b>597,214</b>   | <b>427,604</b>   | <b>169,610</b> | <b>39.7</b> |
| Depreciation and amortisation                 | 589,672          | 520,364          | 69,308         | 13.3        |

| Item   | 2017      | 2016*   | change  | % change |
|--------|-----------|---------|---------|----------|
| EBITDA | 1,186,886 | 947,968 | 238,918 | 25.2     |

Source: Company data.

\* Financial data restated in accordance with the information presented in Note 2.4 to the consolidated financial statements.

With revenue up 7.3% year on year and cost of sales growing relatively slower (up 6.5%), the Group reported a gross profit which was PLN 197,440 thousand, or 10.1%, higher than in the previous year.

Gross profit net of selling and distribution expenses and administrative expenses was PLN 728,439 thousand, PLN 162,845 thousand more than in 2016.

In 2017, the balance of other income and other expenses was negative, at PLN (131,225) thousand, reducing EBIT, which amounted to PLN 597,214 thousand.

### 5.3.2. Segments' consolidated financial information

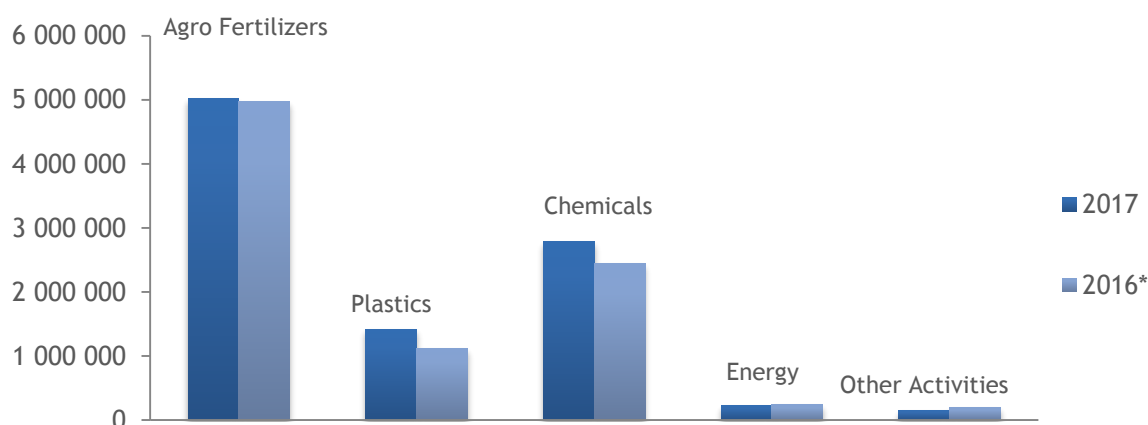
#### EBIT by segment

|                        | Agro Fertilizers | Plastics  | Chemicals | Energy   | Other    |
|------------------------|------------------|-----------|-----------|----------|----------|
| External revenue       | 5,027,929        | 1,419,092 | 2,788,768 | 230,126  | 151,580  |
| Profit/(loss) on sales | 338,435          | 170,639   | 282,450   | (23,358) | (39,727) |
| EBIT                   | 287,805          | 171,265   | 243,020   | (38,313) | (66,563) |

Source: Company data.

The Group's profit on sales of products in 2017 was determined primarily by the market situation in the Agro Fertilizers segment. Revenue in the Agro Fertilizers segment was up 1.2% year on year. Revenue increased also in the Plastics segment and the Chemicals segment - by 26.9% and 14.3%, respectively. In the other segments, revenue declined - by 4.0% in Energy and by 23.5% in Other Activities.

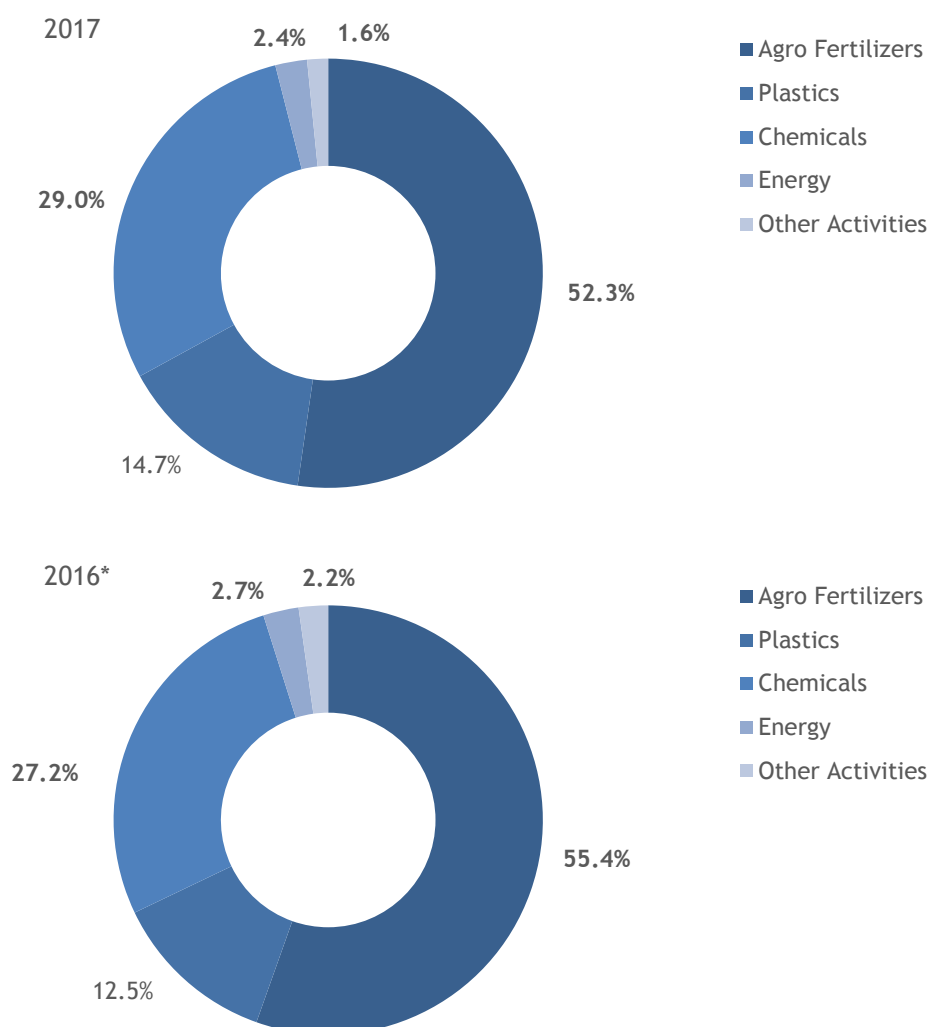
#### Revenue by segment



Source: Company data.

\* Financial data restated in accordance with the information presented in Note 2.4 to the consolidated financial statements.

## Revenue by segment



Source: Company data.

\* Financial data restated in accordance with the information presented in Note 2.4 to the consolidated financial statements.

The shares of individual segments in total revenue changed slightly compared with 2016, with increased contributions from Plastics (2.2pp), Chemicals (1.8pp), and a lower share of Agro Fertilizers (down 3.1pp), Energy (down 0.3pp) and Other Activities (0.6pp).

### Agro Fertilizers

In 2017, revenue in the Agro Fertilizers segment was PLN 5,027,929 thousand and accounted for 52.3% of the Group's total revenue. The segment's revenue rose 1.2% year on year.

EBIT reported by the Agro Fertilizers segment was positive.

Sales on the domestic market accounted for approximately 71.4% of the segment's revenue.

### Plastics

Revenue in the Plastics segment was PLN 1,419,092 thousand and accounted for 14.7% of the Group's total revenue. The segment's revenue was up 26.9% year on year. The segment's EBIT also increased relative to 2016.

More than 89.8% of the segment's revenue was derived from sales on foreign markets.



## Chemicals

In 2017, revenue in the Chemicals segment amounted to PLN 2,788,768 thousand, having increased 14.3% year on year. The segment's revenue accounted for 29.0% of the Group's total revenue. The segment's EBIT improved relative to 2016, and came in positive at PLN 243,020 thousand. Sales on foreign markets accounted for approximately 61.0% of the Chemicals segment's revenue.

## Energy

In 2017, revenue in the Energy segment was PLN 230,126 thousand and accounted for approximately 2.4% of the Parent's total revenue. Year on year, the segment's revenue decreased by 4.0%. EBIT reported by the Energy segment was negative.

## Other Activities

In 2017, revenue in the Other Activities segment was PLN 151,580 thousand and accounted for 1.6% of the Group's total revenue, having decreased by 23.5% relative to 2016. The segment's EBIT was negative in 2017.

### 5.3.3. Structure of consolidated operating expenses

In 2017, operating expenses reached PLN 8,965,952 thousand, having increased by PLN 634,062 thousand year on year. The rise in total operating expenses was driven by an increase in raw materials and consumables used, salaries and wages, including overheads and other benefits, depreciation and amortisation, as well as taxes and charges. In contrast, cost of services and other expenses were down.

#### Operating expenses by nature of expense

|   | 2017             | 2016*            | change         | % change   |
|---|------------------|------------------|----------------|------------|
| Depreciation and amortisation                               | 586,660          | 517,639          | 69,021         | 13.3       |
| Raw materials and consumables used                          | 5,486,585        | 4,980,159        | 506,426        | 10.2       |
| Services  | 990,067          | 1,039,438        | (49,371)       | (4.7)      |
| Salaries and wages, including overheads, and other benefits | 1,399,447        | 1,299,753        | 99,694         | 7.7        |
| Taxes and charges   | 337,771          | 323,431          | 14,340         | 4.4        |
| Other expenses  | 165,422          | 171,470          | (6,048)        | (3.5)      |
| <b>Total</b>  | <b>8,965,952</b> | <b>8,331,890</b> | <b>634,062</b> | <b>7.6</b> |

Source: Company data.

\* Financial data restated in accordance with the information presented in Note 2.4 to the consolidated financial statements.

## Other operating expenses

In 2017, other expenses, excluding raw materials and consumables used, accounted for 38.8% of total operating expenses, Up from 40.2% in the corresponding period of 2016. The structure of other expenses changed only slightly relative to the comparative period.

#### Structure of other operating expenses [%]

|   | 2017        | 2016*       |
|---|-------------|-------------|
| Depreciation and amortisation                               | 6.5         | 6.2         |
| Services  | 11.0        | 12.5        |
| Salaries and wages, including overheads, and other benefits | 15.6        | 15.6        |
| Taxes and charges   | 3.8         | 3.9         |
| Other expenses  | 1.8         | 2.1         |
| <b>Total</b>  | <b>38.8</b> | <b>40.2</b> |

Source: Company data.

\* Financial data restated in accordance with the information presented in Note 2.4 to the consolidated financial statements.

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

In 2017, the Group's assets rose to PLN 11,738,044 thousand, by PLN 744,449 thousand relative to the end of 2016. As at December 31st 2017, non-current assets stood at PLN 8,069,981 thousand, and current assets were PLN 3,668,063 thousand.

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

- a 69.2% increase in cash and cash equivalents,
- a 6.6% increase in property, plant and equipment,
- a 16.9% increase in inventories,
- a 140% increase in other receivables,
- a 6.5% increase in trade and other receivables,
- a 56.3% decrease in other current financial assets,
- a 17% decrease in intangible assets.

#### Structure of assets

|                                       | 2017              | 2016*             | change         | % change   |
|---------------------------------------|-------------------|-------------------|----------------|------------|
| <b>Non-current assets, including:</b> | <b>8,069,981</b>  | <b>7,655,038</b>  | <b>414,943</b> | <b>5.4</b> |
| Property, plant and equipment         | 6,779,748         | 6,360,626         | 419,122        | 6.6        |
| Perpetual usufruct of land            | 476,616           | 487,171           | (10,555)       | (2.2)      |
| Intangible assets                     | 395,755           | 476,683           | (80,928)       | (17.0)     |
| Other receivables                     | 137,850           | 57,445            | 80,405         | 140.0      |
| Equity-accounted investees            | 111,059           | 110,411           | 648            | 0.6        |
| Deferred tax assets                   | 69,583            | 50,402            | 19,181         | 38.1       |
| Investment property                   | 49,649            | 66,054            | (16,405)       | (24.8)     |
| <b>Current assets, including:</b>     | <b>3,668,063</b>  | <b>3,338,557</b>  | <b>329,506</b> | <b>9.9</b> |
| Trade and other receivables           | 1,088,424         | 1,022,127         | 66,297         | 6.5        |
| Cash and cash equivalents             | 1,085,885         | 641,895           | 443,990        | 69.2       |
| Inventories                           | 1,003,214         | 858,043           | 145,171        | 16.9       |
| Other financial assets                | 253,684           | 580,849           | (327,165)      | (56.3)     |
| Property rights                       | 188,887           | 214,675           | (25,788)       | (12.0)     |
| <b>Total assets</b>                   | <b>11,738,044</b> | <b>10,993,595</b> | <b>744,449</b> | <b>6.8</b> |

Source: Company data.

\* Financial data restated in accordance with the information presented in Note 2.4 to the consolidated financial statements.

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

- a 5.7% increase in equity,
- a 14.1% increase in non-current liabilities under borrowings,
- a 10.9% increase in trade and other payables,
- a 58.4% decrease in other current financial liabilities.

#### Structure of equity and liabilities

| Item                                       | 2017             | 2016*            | change         | % change    |
|--|------------------|------------------|----------------|-------------|
| <b>Equity</b>                              | <b>7,443,407</b> | <b>7,039,472</b> | <b>403,935</b> | <b>5.7</b>  |
| <b>Non-current liabilities, including:</b> | <b>2,336,621</b> | <b>2,103,324</b> | <b>233,297</b> | <b>11.1</b> |
| Borrowings                                 | 1,564,879        | 1,372,047        | 192,832        | 14.1        |
| Employee benefit obligations               | 336,781          | 321,209          | 15,572         | 4.8         |
| Deferred tax liabilities                   | 177,588          | 191,291          | (13,703)       | (7.2)       |
| Provisions                                 | 122,740          | 106,092          | 16,648         | 15.7        |
| <b>Current liabilities, including:</b>     | <b>1,958,016</b> | <b>1,850,799</b> | <b>107,217</b> | <b>5.8</b>  |
| Trade and other payables                   | 1,769,199        | 1,595,231        | 173,968        | 10.9        |

| Item                                | 2017              | 2016*             | change         | % change   |
|-------------------------------------|-------------------|-------------------|----------------|------------|
| Borrowings                          | 70,209            | 52,034            | 18,175         | 34.9       |
| Employee benefit obligations        | 42,316            | 39,917            | 2,399          | 6.0        |
| Other financial liabilities         | 31,484            | 75,678            | (44,194)       | (58.4)     |
| Provisions                          | 29,805            | 39,341            | (9,536)        | (24.2)     |
| <b>Total equity and liabilities</b> | <b>11,738,044</b> | <b>10,993,595</b> | <b>744,449</b> | <b>6.8</b> |

Source: Company data.

\* Financial data restated in accordance with the information presented in Note 2.4 to the consolidated financial statements.

### 5.3.5. Consolidated financial ratios

#### Profitability ratios[%]

|                              | 2017 | 2016* |
|------------------------------|------|-------|
| Gross profit margin          | 22.5 | 21.9  |
| EBIT margin                  | 6.2  | 4.8   |
| EBITDA margin                | 12.3 | 10.6  |
| Net profit margin            | 5.1  | 3.5   |
| ROA                          | 4.2  | 2.9   |
| ROCE                         | 6.1  | 4.7   |
| ROE                          | 6.6  | 4.5   |
| Return on non-current assets | 6.1  | 4.1   |

Source: Company data.

\* Financial data restated in accordance with the information presented in Note 2.4 to the consolidated financial statements.

#### Ratio formulas:

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

*EBIT margin = EBIT / revenue*

*EBITDA margin = EBITDA / revenue*

*Net profit margin = net profit (loss) / revenue*

*Return on assets (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

|               | 2017 | 2016* |
|---------------|------|-------|
| Current ratio | 1.9  | 1.8   |
| Quick ratio   | 1.4  | 1.3   |
| Cash ratio    | 0.7  | 0.7   |

Source: Company data.

\* Financial data restated in accordance with the information presented in Note 2.4 to the consolidated financial statements.

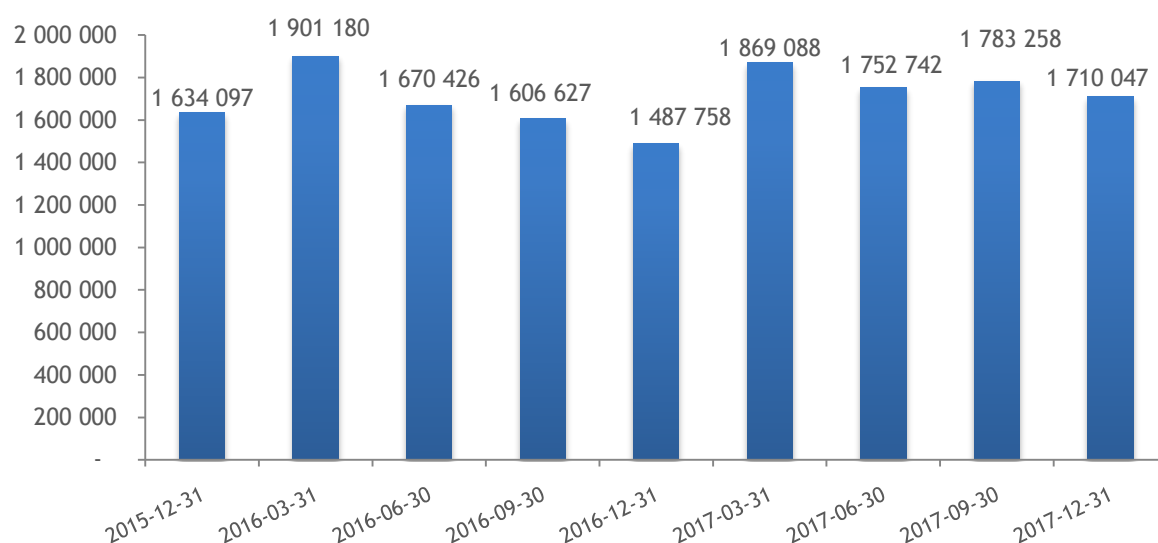
#### Ratio formulas:

*Current ratio = current assets / current liabilities*

*Quick ratio = (current assets - inventories) / 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 2.4 to the consolidated financial statements.

### Operational efficiency ratios

|                           | 2017 | 2016* |
|---------------------------|------|-------|
| Inventory turnover        | 48   | 44    |
| Average collection period | 41   | 41    |
| Average payment period    | 86   | 82    |
| Cash conversion cycle     | 4    | 3     |

Source: Company data.

\* Financial data restated in accordance with the information presented in Note 2.3.3 to the consolidated financial statements.

#### Ratio formulas:

*Inventory turnover = inventories \* 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                 | 2017    | 2016*   |
|-----------------------|---------|---------|
| Total debt ratio      | 36.6    | 36.0    |
| Long-term debt ratio  | 19.9    | 19.1    |
| Short-term debt ratio | 16.7    | 16.8    |
| Equity-to-debt ratio  | 173.3   | 178.0   |
| Interest cover ratio  | 1,549.6 | 1,279.9 |

Source: Company data.

\* Financial data restated in accordance with the information presented in Note 2.4 to the consolidated financial statements.

#### 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*

### 5.3.6. Separate financial data

In 2017, the Group earned a positive EBITDA of PLN 245,009 thousand and net profit of PLN 354,793 thousand.

Year on year, EBITDA was up PLN 206,401 thousand and net profit increased by PLN 160,867 thousand.

#### Separate financial data of Grupa Azoty

| Item                              | 2017           | 2016*           | change         | % change        |
|-----------------------------------|----------------|-----------------|----------------|-----------------|
| Revenue                           | 1,681,525      | 1,552,332       | 129,193        | 8.3             |
| Cost of sales                     | (1,265,543)    | (1,299,481)     | 33,938         | (2.6)           |
| <b>Gross profit</b>               | <b>415,982</b> | <b>252,851</b>  | <b>163,131</b> | <b>64.5</b>     |
| Selling and distribution expenses | (101,181)      | (92,494)        | (8,687)        | 9.4             |
| Administrative expenses           | (161,048)      | (160,129)       | (919)          | 0.6             |
| <b>Profit from sales</b>          | <b>153,753</b> | <b>228</b>      | <b>153,525</b> | <b>67,335.5</b> |
| Net other expenses                | (9,412)        | (55,657)        | 46,245         | (83.1)          |
| <b>Operating profit/(loss)</b>    | <b>144,341</b> | <b>(55,429)</b> | <b>199,770</b> | <b>(360.4)</b>  |
| Net finance income                | 193,505        | 245,959         | (52,454)       | (21.3)          |
| <b>Profit before tax</b>          | <b>337,846</b> | <b>190,530</b>  | <b>147,316</b> | <b>77.3</b>     |
| Income tax                        | 16,947         | 3,396           | 13,551         | 399.0           |
| <b>Net profit</b>                 | <b>354,793</b> | <b>193,926</b>  | <b>160,867</b> | <b>83.0</b>     |
| <b>EBIT</b>                       | <b>144,341</b> | <b>(55,429)</b> | <b>199,770</b> | <b>(360.4)</b>  |
| Depreciation and amortisation     | 100,668        | 94,037          | 6,631          | 7.1             |
| <b>EBITDA</b>                     | <b>245,009</b> | <b>38,608</b>   | <b>206,401</b> | <b>534.6</b>    |

Source: Company data.

\* Financial data restated in accordance with the information presented in Note 2.4 to the separate financial statements.

With revenue up 8.3% year on year and cost of sales down 2.6%, Grupa Azoty reported a gross profit of PLN 415,982 thousand, up by PLN 163,131 thousand on 2016.

Despite higher selling and distribution expenses, net other expenses and a slight increase in administrative expenses, Grupa Azoty reported an operating profit of PLN 144,341 thousand. Profit before tax was ultimately also driven by finance income, which comprised mainly dividends received.

### 5.3.7. Separate financial data by segment

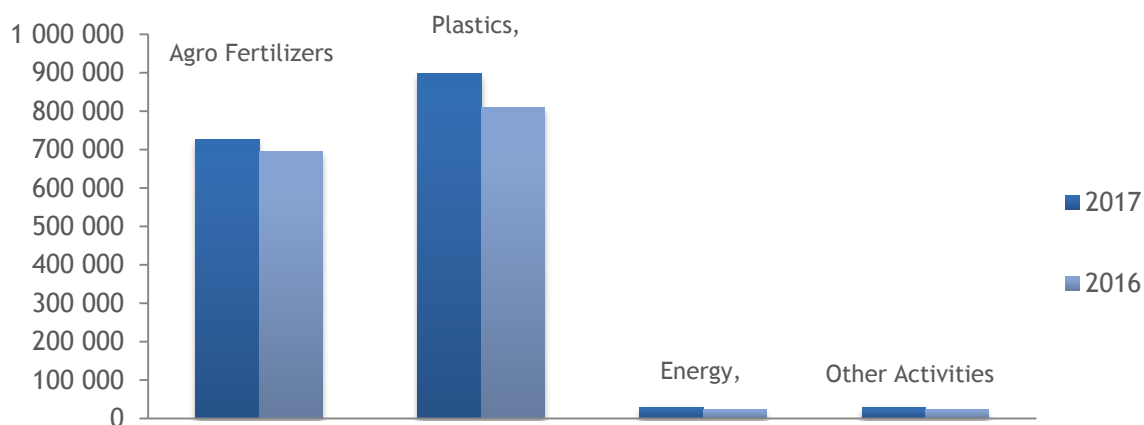
#### EBIT by segment

|                        | Agro Fertilizers | Plastics       | Energy       | Other          |
|------------------------|------------------|----------------|--------------|----------------|
| External revenue       | 726,544          | 897,749        | 29,475       | 27,757         |
| Profit/(loss) on sales | 19,468           | 135,757        | 171          | (1,643)        |
| <b>EBIT</b>            | <b>17,804</b>    | <b>132,183</b> | <b>(503)</b> | <b>(5,143)</b> |

Source: Company data.

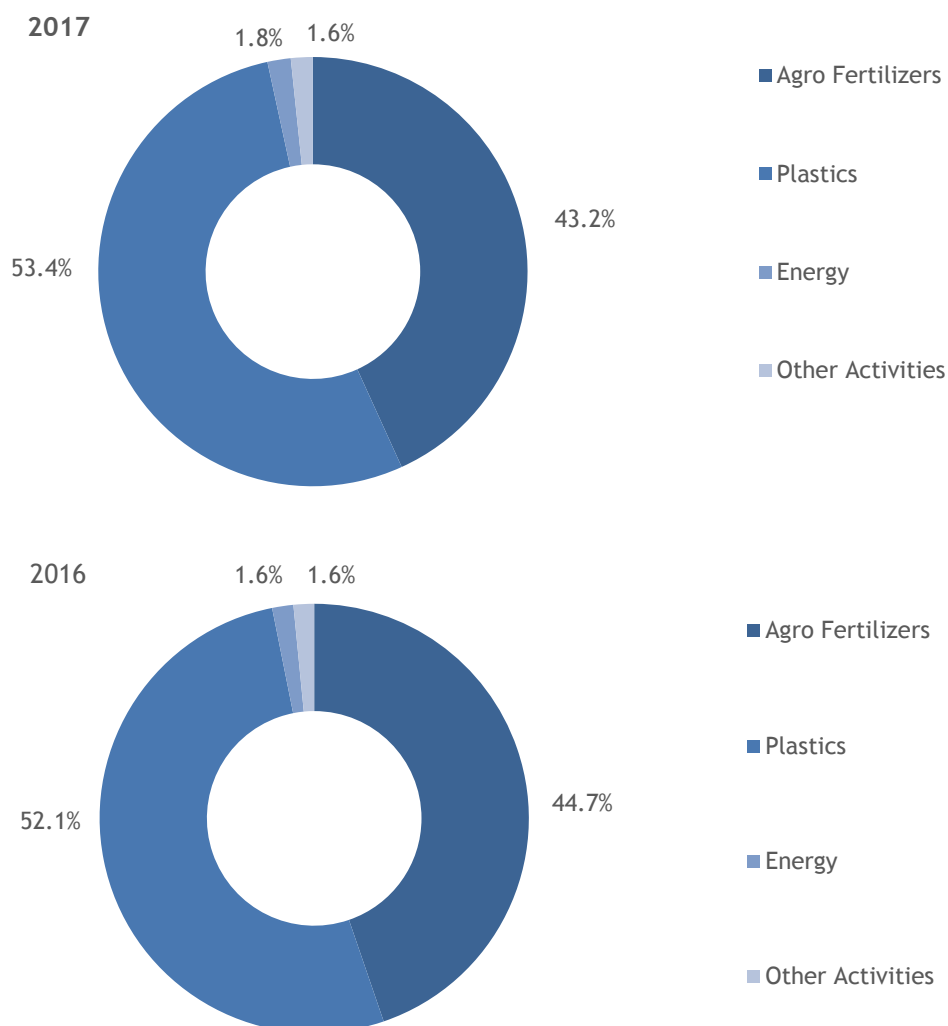
The Group's profit on sales of products in 2017 was determined primarily by the market situation in the Agro Fertilizers and Plastics segments. Compared with the previous year, revenue increased across all segments: by 4.6% in Agro Fertilizers, by 11.0% in Plastics, by 18.9% in Energy, and by 15.3% in Other Activities.

### Revenue by segment



Source: Company data.

### Revenue by segment



Source: Company data.

There were slight year-on-year movements in the segments' shares in total revenue, with increased contributions from Plastics (1.3pp) and Energy (0.2pp), and a lower share of Agro Fertilizers (down 1.5pp), with the share of Other Activities unchanged year on year.

### Agro Fertilizers

In 2017, revenue in the Agro Fertilizers segment was PLN 726,544 thousand and accounted for 43.2% of the Parent's total revenue. Year on year, the segment's revenue rose 4.6%, with its share in the Parent's revenue having declined by 1.5pp.

EBIT reported by the Agro Fertilizers segment was positive.

Sales on the domestic market accounted for approximately 71.0% of the segment's revenue.

### Plastics

In 2017, revenue in the Plastics segment was PLN 897,749 thousand and accounted for 53.4% of the Parent's total revenue. Year on year, the segment's revenue went up by 11.0%.

The Plastics segment recorded a positive EBIT.

More than 84.8% of the segment's revenue was derived from sales on foreign markets.

### Energy

In 2017, revenue in the Energy segment was PLN 29,475 thousand and accounted for approximately 1.8% of the Parent's total revenue. The segment's revenue increased 18.9% year on year. EBIT reported by the Energy segment was negative.

### Other Activities

In 2017, revenue in the Other Activities segment was PLN 27,757 thousand and accounted for 1.6% of total revenue, having increased by 15.3% relative to 2016. The segment's EBIT was negative in 2017.

#### 5.3.8. Structure of separate operating expenses

In 2017, operating expenses reached PLN 1,563,649 thousand, having increased by PLN 20,788 thousand year on year. The largest increase was recorded in raw materials and consumables used, salaries and wages, including overheads, and other benefits. Cost of services fell year on year.

#### Operating expenses by nature of expense

|   | 2017             | 2016*            | change        | % change   |
|---|------------------|------------------|---------------|------------|
| Depreciation and amortisation                               | 99,502           | 92,530           | 6,972         | 7.5        |
| Raw materials and consumables used                          | 948,065          | 908,697          | 39,368        | 4.3        |
| Services  | 238,419          | 297,230          | (58,811)      | (19.8)     |
| Salaries and wages, including overheads, and other benefits | 209,453          | 177,573          | 31,880        | 18.0       |
| Taxes and charges   | 43,943           | 41,729           | 2,214         | 5.3        |
| Other expenses  | 24,267           | 25,102           | (835)         | (3.3)      |
| <b>Total</b>  | <b>1,563,649</b> | <b>1,542,861</b> | <b>20,788</b> | <b>1.3</b> |

Source: Company data.

\* Financial data restated in accordance with the information presented in Note 2.4 to the separate financial statements.

#### Other operating expenses

In 2017, other expenses, excluding raw materials and consumables used, accounted for 39.4% of total operating expenses, Up from 41.1% in the corresponding period of 2016. Relative to the comparative period, the share of services decreased, the share of salaries and wages, including overheads, and other benefits increased, and the share of other expenses changed only slightly.

#### Structure of other operating expenses [%]

|   | 2017        | 2016*       |
|---|-------------|-------------|
| Depreciation and amortisation                               | 6.4         | 6.0         |
| Services  | 15.2        | 19.3        |
| Salaries and wages, including overheads, and other benefits | 13.4        | 11.5        |
| Taxes and charges   | 2.8         | 2.7         |
| Other expenses  | 1.6         | 1.6         |
| <b>Total</b>  | <b>39.4</b> | <b>41.1</b> |

Source: Company data.

\* Financial data restated in accordance with the information presented in Note 2.4 to the separate financial statements.

#### 5.3.9. Structure of separate assets, equity and liabilities

In 2017, the Parent's assets increased to PLN 6,871,133 thousand, i.e. by PLN 452,532 thousand relative to the end of 2016. As at December 31st 2017, non-current assets stood at PLN 5,770,410 thousand, and current assets were PLN 1,100,723 thousand.

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

- a 75.7% increase in cash and cash equivalents,
- a 8.3% increase in property, plant and equipment,
- a 23.9% increase in inventories.

#### Structure of assets

|                                       | 2017             | 2016*            | change         | % change    |
|---------------------------------------|------------------|------------------|----------------|-------------|
| <b>Non-current assets, including:</b> | <b>5,770,410</b> | <b>5,625,865</b> | <b>144,545</b> | <b>2.6</b>  |
| Shares                                | 3,867,145        | 3,859,066        | 8,079          | 0.2         |
| Property, plant and equipment         | 1,554,673        | 1,435,521        | 119,152        | 8.3         |
| Other financial assets                | 249,978          | 244,220          | 5,758          | 2.4         |
| Intangible assets                     | 46,957           | 50,864           | (3,907)        | (7.7)       |
| <b>Current assets, including:</b>     | <b>1,100,723</b> | <b>792,736</b>   | <b>307,987</b> | <b>38.9</b> |
| Cash and cash equivalents             | 572,711          | 326,031          | 246,680        | 75.7        |
| Trade and other receivables           | 214,524          | 208,557          | 5,967          | 2.9         |
| Inventories                           | 212,109          | 171,256          | 40,853         | 23.9        |
| Other financial assets                | 70,361           | 53,944           | 16,417         | 30.4        |
| <b>Total assets</b>                   | <b>6,871,133</b> | <b>6,418,601</b> | <b>452,532</b> | <b>7.1</b>  |

Source: Company data.

\* Financial data restated in accordance with the information presented in Note 2.4 to the separate financial statements.

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

- a 6.7% increase in the Parent's equity,
- a 16.4% increase in non-current liabilities under borrowings,
- a 7.1% increase in trade and other payables,
- a 62.7% decrease in other current financial liabilities.

#### Structure of equity and liabilities

| Item                                       | 2017             | 2016*            | change         | % change    |
|--|------------------|------------------|----------------|-------------|
| <b>Equity</b>                              | <b>4,762,256</b> | <b>4,464,760</b> | <b>297,496</b> | <b>6.7</b>  |
| <b>Non-current liabilities, including:</b> | <b>1,484,324</b> | <b>1,310,891</b> | <b>173,433</b> | <b>13.2</b> |
| Borrowings                                 | 1,357,234        | 1,166,290        | 190,944        | 16.4        |



| Item                                   | 2017             | 2016*            | change          | % change     |
|--|------------------|------------------|-----------------|--------------|
| Employee benefit obligations           | 47,459           | 46,136           | 1,323           | 2.9          |
| Provisions                             | 27,345           | 25,992           | 1,353           | 5.2          |
| Government grants received             | 26,394           | 19,222           | 7,172           | 37.3         |
| Other financial liabilities            | 25,860           | 28,538           | (2,678)         | (9.4)        |
| <b>Current liabilities, including:</b> | <b>624,553</b>   | <b>642,950</b>   | <b>(18,397)</b> | <b>(2.9)</b> |
| Borrowings                             | 310,892          | 307,375          | 3,517           | 1.1          |
| Trade and other payables               | 280,843          | 262,140          | 18,703          | 7.1          |
| Other financial liabilities            | 24,315           | 65,131           | (40,816)        | (62.7)       |
| <b>Total equity and liabilities</b>    | <b>6,871,133</b> | <b>6,418,601</b> | <b>452,532</b>  | <b>7.1</b>   |

Source: Company data.

\* Financial data restated in accordance with the information presented in Note 2.4 to the separate financial statements.

### 5.3.10. Separate financial ratios

#### Profitability ratios [%]

|                              | 2017 | 2016* |
|------------------------------|------|-------|
| Gross profit margin          | 24.7 | 16.3  |
| EBIT margin                  | 8.6  | (3.6) |
| EBITDA margin                | 14.6 | 2.5   |
| Net profit margin            | 21.1 | 12.5  |
| ROA                          | 5.2  | 3.0   |
| ROCE                         | 2.3  | (1.0) |
| ROE                          | 7.5  | 4.3   |
| Return on non-current assets | 6.1  | 3.4   |

Source: Company data.

\* Financial data restated in accordance with the information presented in Note 2.4 to the separate financial statements.

#### Ratio formulas:

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

*EBIT margin = EBIT / revenue*

*EBITDA margin = EBITDA / revenue*

*Net profit margin = net profit (loss) / revenue*

*Return on assets (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

|               | 2017 | 2016* |
|---------------|------|-------|
| Current ratio | 1.8  | 1.2   |
| Quick ratio   | 1.4  | 1.0   |
| Cash ratio    | 1.0  | 0.6   |

Source: Company data.

\* Financial data restated in accordance with the information presented in Note 2.4 to the separate financial statements.

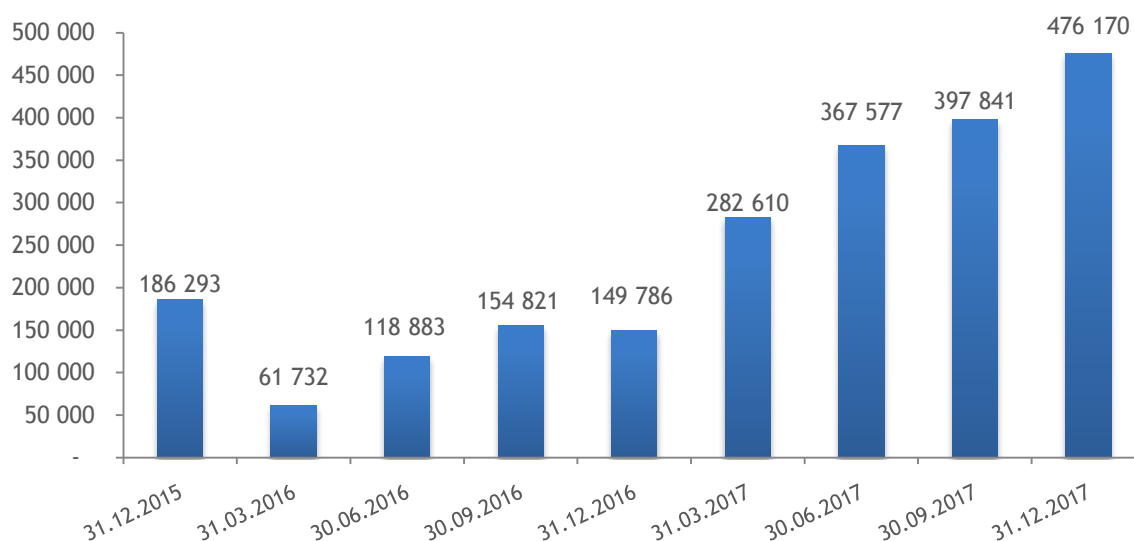
#### Ratio formulas:

*Current ratio = current assets / current liabilities*

*Quick ratio = (current assets - inventories) / 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 2.4 to the separate financial statements.

### Operational efficiency ratios

|                           | 2017 | 2016* |
|---------------------------|------|-------|
| Inventory turnover        | 60   | 47    |
| Average collection period | 46   | 48    |
| Average payment period    | 80   | 73    |
| Cash conversion cycle     | 26   | 22    |

Source: Company data.

\* Financial data restated in accordance with the information presented in Note 2.4 to the separate financial statements.

#### Ratio formulas:

*Inventory turnover = inventories \* 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                 | 2017    | 2016* |
|-----------------------|---------|-------|
| Total debt ratio      | 30.7    | 30.4  |
| Long-term debt ratio  | 21.6    | 20.4  |
| Short-term debt ratio | 9.1     | 10.0  |
| Equity-to-debt ratio  | 225.8   | 228.5 |
| Interest cover ratio  | 1,211.8 | 796.9 |

Source: Company data.

\* Financial data restated in accordance with the information presented in Note 2.4 to the separate financial statements.

#### 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*

#### 5.4. Management of capital and assets

The Group has access to long-term corporate credit lines and umbrella overdraft limits under physical cash pooling arrangements and under a multi-purpose credit facility, which may be used by the Parent at times of increased demand for funding by the Group companies. Complementarily, the Group has unused available limits resulting from bilateral and multi-purpose overdrafts held by the Group's entities.

In total, as at December 31st 2017 the Group had access to credit limits under the agreements specified above of approximately PLN 1,187,858 thousand.

Importantly, the Group maintains high amounts of free cash, including in bank deposits, which as at December 31st 2017 amounted to PLN 1,339,383 thousand.

Total limits available under these borrowings and free cash represent financial resources which are sufficient to service current and future liabilities, and therefore the Group's liquidity risk is very low. In 2017, the Group increased its borrowings from PLN 1,424,081 thousand to PLN 1,635,088 thousand, of which the Parent's borrowings rose from PLN 1,473,665 thousand to PLN 1,668,126 thousand (including PLN 273,897 due to related entities).

The Group's short-term borrowings increased from PLN 52,034 thousand to PLN 70,209 thousand.

In 2017, none of the Group companies defaulted on any of their liabilities or financial covenants where such default would trigger acceleration of the liabilities.

In 2017, the Group was not refused any bank borrowings and none of its credit facility agreements was terminated.

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

In 2017, the Group successfully continued its financing strategy, which included:

- using a package of corporate credit facility agreements, as a highly secure source of funding for the Group's long-term growth strategy and its day-to-day operations, ensuring uniform terms adequate to the Group's condition and potential;
- maintaining a strong liquidity position while optimising the management of free cash at the 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 needs of the Group companies;
- implementing an efficient mechanism for redistribution of funds under the intra-group financing agreement with key subsidiaries, in the form of intra-group loans or note issues;
- implementing the Parent's dividend policy with respect to its subsidiaries, adapted to the financing requirements of the Group's and its subsidiaries' investment strategies;
- applying mechanisms under the Group liquidity management and financing policy consistent with the centralised Group financing model.

In addition, the Group, in consultation with the financing banks, undertook efforts to optimise selected covenants under its corporate financing agreements with the ultimate goal of maintaining a high level of financing security in the long term, given its plans to use the project finance model to fund selected projects implemented by special purpose vehicles, mainly the Police Polymers project. Relevant adjustments were already made after the reporting date to the covenants stipulated in agreements with the European Investment Bank, under a package of documents signed on January 25th 2018 that comprised a new EUR 145m long-term loan agreement and an annex to the PLN 550m long-term loan agreement of May 28th 2015.

#### 5.5. Bank deposits

In 2017, the Group's short-term funds were primarily held in a current account with PKO BP S.A., linked under physical cash pooling with the individual companies' sublimits. The arrangement enabled the Group to optimise its interest income and expenses, while effectively managing the global liquidity limit and its optimal allocation within the Group.

The Group companies also held free cash in short-term deposits placed with reputable banking institutions offering the highest interest rates, in particular rates above 1M WIBOR per annum on amounts netted off as part of the cash pooling arrangement.

As at December 31st 2017, the Group companies held a total of PLN 1,339,383 thousand in bank accounts and short-term deposits, of which PLN 304,932 thousand was held in the Parent's consolidated current account with PKO BP S.A. linked to the physical cash pooling instrument. As at December 31st 2017, these funds were presented in the Group's financial statements under the following items:

- Cash and cash equivalents - in an amount of PLN 1,085,885 thousand (with maturities of up to 3 months),
- Other current financial assets - in an amount of PLN 253,498 thousand (with maturities of over 3 months to 1 year).

Interest income earned by the Group on fixed-term deposits and under the cash pooling arrangement totalled PLN 13,124 thousand.

## **5.6. Credit facility agreements executed or terminated**

In 2017 and as at the date of this report, none of the Group companies defaulted on credit facilities or breached any material covenants under credit facility agreements.

Unless indicated otherwise, the currency of all credit facility agreements is PLN. Interest on the PLN-denominated facilities accrues at variable rates based on WIBOR plus the bank's margin, interest on the EUR-denominated facilities - at variable rates based on EURIBOR plus the bank's margin, and interest on the loan facility from the EIB - at a fixed rate throughout the lifetime of the loan.

In 2017 and as at the date of this report, the Group companies signed the following material financial agreements, arrangements and annexes (presented in the chronological order):

### **Overdraft facility agreement between Grupa Azoty POLICE and Bank Gospodarstwa Krajowego**

On January 25th 2017, Grupa Azoty POLICE signed a PLN 80,000 thousand overdraft facility agreement with Bank Gospodarstwa Krajowego, for a period until January 24th 2020.

### **Annex to the credit facility agreement between Agrochem Sp. z o.o. and Bank Pekao S.A.**

On January 31st 2017, Agrochem Sp. z o.o. and Bank Pekao S.A. signed an annex to the PLN 10m overdraft facility agreement, extending the agreement term until January 31st 2018. After the reporting date, i.e. on January 31st 2018, the facility was repaid in full, and the agreement expired.

### **Credit facility agreement between Remzap Sp. z o.o. and Bank Millennium S.A.**

On March 23rd 2017, Remzap Sp. z o.o. signed a PLN 2m credit facility agreement with Bank Millennium S.A. for the period until March 22nd 2019.

### **Repayment under investment facility agreement between Grupa Azoty Prorem Sp. z o.o. and PKO BP S.A.**

In March 2017, Grupa Azoty Prorem Sp. z o.o. early repaid the outstanding balance of PLN 1,224 thousand under the investment credit facility agreement signed on March 1st 2012 with PKO BP.

### **Annexes to the agreement for electronic purchase of receivables between the Parent and mBank S.A.**

On April 26th 2017, the Parent and mBank S.A. signed an annex to the agreement for electronic purchase of receivables of September 24th 2014, extending the effective term of the limit of EUR 8m until October 2nd 2017.

Subsequently, on June 29th 2017, another annex was signed, extending the term of the limit until January 29th 2018, and on September 27th 2017, yet another annex was executed, extending the term of the limit until January 1st 2021.

### **Annexes to the receivables discounting agreement between the Parent and mBank S.A. and a new agreement for electronic purchase of receivables**

On April 26th 2017, the Parent and mBank S.A. signed an annex to the receivables discounting agreement of July 30th 2010, extending the effective term of the limit of EUR 21m until October 2nd 2017.

Subsequently, on June 29th 2017, another annex was signed, extending the term of the limit until January 29th 2018.

**Annex to the bank guarantee agreement between Grupa Azoty Prorem Sp. z o.o. and PKO BP S.A.**

In May 2017, Grupa Azoty Prorem and PKO BP signed Annex 2 to the framework bank guarantee agreement, whereby the term of the agreement was extended by another three years, until May 10th 2020, with the limit amounting to PLN 2,000 thousand.

**Annex to the credit facility agreement between Agrochem Puławy Sp. z o.o. and Bank Pekao S.A.**

On June 27th 2017, Agrochem Puławy Sp. z o.o. and Bank Pekao S.A. signed an annex to the PLN 15m credit facility agreement with the repayment period until October 31st 2017, by which date the facility was repaid, and the agreement expired.

**Annex to the receivables discounting agreement between the Parent and mBank S.A. and a new agreement for electronic purchase of receivables**

On April 27th 2017, the Parent and mBank S.A. signed an annex to the receivables discounting agreement in order to terminate it and make all related settlements; at the same time, the parties signed a new agreement for electronic purchase of receivables under the Vendor Finance electronic customer financing programme, with a limit of EUR 21m, valid until December 29th 2020.

**Overdraft facility agreement between Grupa Azoty KĘDZIERZYN and Bank Gospodarstwa Krajowego**

October 21st 2017 was the expiry date of the overdraft facility provided to Grupa Azoty KĘDZIERZYN by Bank Gospodarstwa Krajowego under the agreement of October 22nd 2014 for an overdraft facility of up to PLN 40m, as amended.

**Annex to multi-purpose credit facility agreement with PKO BP**

On November 23rd 2017, the Parent, acting together with other Grupa Azoty Group companies, and PKO BP S.A. signed annex 3 to the multi-purpose credit facility agreement of April 23rd 2015, as amended, amending the rules for issuing customs guarantees based on the model guarantee defined by the Minister of Development and Finance, effective as of January 1st 2018.

**Annex to Grupa Azoty PUŁAWY's credit facility agreement with Bank Pekao S.A.**

On November 24th 2017, Grupa Azoty PUŁAWY and Bank Pekao S.A. signed Annex 9 to the PLN 2,000,000 intraday overdraft facility agreement, extending the availability period until November 30th 2018.

***Events after the reporting period***

**Parent's facility agreements with the European Investment Bank**

On January 25th 2018, the Parent and the European Investment Bank signed a EUR 145,000,000 term loan agreement for a period of ten years from the disbursement date to finance certain projects under the Group's investment and R&D programmes.

The Parent and EIB also signed an annex to the PLN 550,000,000 loan agreement of May 28th 2015 in order to harmonise the material terms and conditions of the two agreements, which are subject to harmonisation under the Group's other corporate financing agreements.

## **5.7. Loans taken out, terminated or advanced**

Unless indicated otherwise, all the loan agreements are denominated in PLN. Interest on the PLN-denominated loans accrues at variable rates based on WIBOR plus the bank's margin, and on the EUR-denominated loans at variable rates based on EURIBOR plus the bank's margin.

### **Intragroup loans**

**Loan agreement between Grupa Azoty PUŁAWY and SCF Natural Sp. z o.o.**

On January 16th 2017, Grupa Azoty PUŁAWY and SCF Natural Sp. z o.o. signed a PLN 1.0m loan agreement, with the repayment deadline set for October 31st 2022.

On June 19th 2017, annex 2 was executed to the registered pledge agreement with SCF Natural Sp. z o.o. Pursuant to the annex, the existing registered pledge will also secure liabilities under the loan agreement of January 16th 2017, and the maximum security amount will increase from PLN 715,000 to PLN 1,915,000.

On June 28th 2017, annex 1 was executed to the agreement of June 17th 2014 with SCF Natural Sp. z o.o. on assignment of rights under an insurance policy. Pursuant to the annex, the assigned rights will also apply to liabilities under the loan agreement of January 16th 2017.

On September 12th 2017, Grupa Azoty PUŁAWY and SCF Natural Sp. z o.o. signed Annex 1 to the loan agreement of January 16th 2017, extending the time limit for the creation of security by six months, i.e. until December 31st 2017.

On December 20th 2017, SCF Natural Sp. z o.o. signed a notarial deed establishing a PLN 0.5m mortgage as security for the loans received.

#### **Repayment of a loan**

On January 16th 2017, ZAKSA S.A. repaid the PLN 500,000 loan advanced by Grupa Azoty KĘDZIERZYN on November 14th 2016 to finance the company's day-to-day operations. The loan was repaid by set-off of mutual claims under the loan agreement of November 14th 2016 and the agreement for the provision of advertising services of October 9th 2015, on the due date of the invoice issued by ZAKSA S.A. for the provision of advertising services under the latter agreement in the period from January 1st to June 30th 2017.

#### **Repayment of a loan**

On May 31st 2017, Bałtycka Baza Masowa Sp. z o.o. repaid the last instalment of the PLN 4m consolidation loan granted on December 23rd 2015 by Grupa Azoty PUŁAWY. The amount of the loan was PLN 4m.

#### **Repayment of a loan**

On August 18th 2017, GZNF Fosfory Sp. z o.o. repaid the last instalment (together with interest) of the PLN 79m loan granted to the company by Grupa Azoty PUŁAWY on May 26th 2011.

On December 18th 2017, the Management Board of Grupa Azoty PUŁAWY resolved to terminate the agreement on debt repayment terms entered into with GZNF Fosfory Sp. z o.o. on May 26th 2011.

#### **Repayment of a loan**

On December 29th 2017, Grupa Azoty S.A. repaid the PLN 50m loan (plus accrued interest) granted by Grupa Azoty KiZChS Siarkopol Sp. z o.o. on December 23rd 2013.

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

On December 22nd 2016, the Management Board of Zakłady Azotowe Chorzów S.A. requested the Management Board of Grupa Azoty PUŁAWY that the debt under the loans granted on April 2nd 2014 and March 13th 2015 be consolidated and that their repayment be re-scheduled.

Earlier, on June 22nd 2016, in order to maintain the company's current liquidity, the Management Board of Zakłady Azotowe Chorzów S.A. had requested Grupa Azoty PUŁAWY that repayments under the loans be temporarily suspended. The decision was deferred until the Management Board of Zakłady Azotowe Chorzów S.A. completes and implements a rehabilitation plan.

On December 11th 2017, Zakłady Azotowe Chorzów S.A. repaid all the instalments of a total of PLN 10,080,000 (18 instalments for the period from June 2016 to November 2017) outstanding under the loan agreement of April 2nd 2014, as well as all the instalments of a total of PLN 1,296,000 (18 instalments for the period from June 2016 to November 2017) outstanding under the loan agreement of March 13th 2015.

On December 15th 2017, Zakłady Azotowe Chorzów S.A.:

- repaid early the outstanding balance of PLN 1,996,000 under the loan agreement of March 13th 2015, and therefore no liabilities remained outstanding thereunder as at December 31st 2017;
- repaid early PLN 4,628,000 as part of the loan granted under the loan agreement of April 2nd 2014, and therefore outstanding liabilities thereunder as at December 31st 2017 amounted to PLN 24,452,000;

On December 20th 2017, annex 2 to the loan agreement of April 2nd 2014 with Zakłady Azotowe Chorzów S.A. was signed, postponing the repayment period until 2021-2023.

#### **Intragroup financing agreement**

In 2017, pursuant to the intragroup financing agreement of April 23rd 2015, the Parent disbursed the following amounts to Grupa Azoty KĘDZIERZYN:

- further tranches of the loan for financing of the 'New CHP Plant at GA ZAK S.A. - phase 1' project in a total amount of PLN 43,008 thousand,
- a loan to finance the 'Upgrade of the Urea Unit' project in an amount of PLN 19,856 thousand,

- a loan to finance the 'Upgrade of the Biological Wastewater Treatment Plant at the Wastewater Treatment and Sewage System Division of the Infrastructure Unit' project in an amount of PLN 7,322 thousand,
- a loan to finance the 'Raw Gas Compressor (GGH)' project in an amount of PLN 7,732 thousand.

In addition, after the reporting date, on January 31st 2018, under the aforementioned intragroup financing agreement, a loan was disbursed for the 'Upgrade of the Biological Wastewater Treatment Plant at the Wastewater Treatment and Sewage System Division of the Infrastructure Unit' project in an amount of PLN 4,447 thousand.

## Loans outside the Group

### **Partial cancellation of the loan granted by the Provincial Fund for Environmental Protection and Water Management (WFOŚiGW) to Zakłady Azotowe Chorzów S.A.**

On January 2nd 2017, Zakłady Azotowe Chorzów S.A. submitted an application for partial cancellation of the loan granted by WFOŚiGW. By its resolution of February 22nd 2017, the Supervisory Board of WFOŚiGW approved partial cancellation of the loan in an amount of PLN 168 thousand. A relevant agreement was signed on March 8th 2017. The cancellation was granted on a *de minimis* basis; the amount of the related public assistance was approximately EUR 39 thousand. The change in monthly loan instalments in connection with the partial cancellation is defined in annex 3, of April 7th 2017, to the agreement.

The Management Board of WFOŚiGW also agreed to partially release the loan repayment collateral in an amount of PLN 401 thousand. The part of the deposit representing collateral for the WFOŚiGW loan totals PLN 219 thousand.

In 2017, Zakłady Azotowe Chorzów S.A. did not default on its payment obligations under any credit facility or loan agreement or on any other material terms of any credit facility or loan agreement.

## **5.8. Guarantees and sureties, including guarantees and sureties issued to and received from related parties**

### **Sureties granted**

#### **Surety provided by the Parent to Investitionsbank des Landes Brandenburg (ILB)**

The Parent's Supervisory Board approved the grant of surety to Grupa Azoty ATT Polymers GmbH of up to EUR 1,800 thousand, as security for a grant advanced by Investitionsbank des Landes Brandenburg (ILB) to finance 20% of capital expenditure on the construction of a logistics centre in Guben, Germany.

On February 14th 2017, the Parent and Grupa Azoty ATT Polymers GmbH (the Parent's subsidiary) signed a surety agreement under which the Parent granted to the subsidiary a surety of up to EUR 1,800 thousand.

The surety was granted to secure the EUR 1,500 thousand grant advanced to Grupa Azoty ATT Polymers GmbH by ILB to finance 20% of capital expenditure on the construction of a logistics centre in Guben, Germany.

### **Guarantees**

#### **Guarantees for credit facilities**

Following the execution, on January 25th 2018, of a EUR 145,000 thousand long-term loan agreement between the Parent and the European Investment Bank, on the same date the Grupa Azoty Group's key subsidiaries, including Grupa Azoty PUŁAWY, Grupa Azoty POLICE and Grupa Azoty KĘDZIERZYN, entered into an agreement with EIB for the provision of a guarantee securing repayment of debt under the loan agreement.

Under the guarantee agreement, the key subsidiaries, acting as guarantors, provided guarantees covering the Parent's liabilities under the loan agreement, with each guarantee covering up to one-third (1/3) of 120% of the amount provided under loan agreement with EIB, i.e. up to EUR 58,000,000.

#### **Guarantees issued or annexed upon instructions of the Group companies**

In 2017, the Group did not issue any guarantees whose total amount would exceed 10% of the Parent's equity.

No annexes were signed by the Group in 2017 to amend its guarantees with a value exceeding 10% of the Parent's equity.

### Guarantees granted/annexed in the financial year

| Guarantee recipient   | Total guarantee amount (PLN '000)       | Guarantee date                           | Period for which the guarantee was granted | Financial terms  | Type   |
|---|---|--|--|--|--|
| Bank guarantee issued by PKO BP S.A. to AZOT Grodno upon the Parent's instruction   | EUR 267 thousand                        | May 19th 2017                            | Aug 15th 2017                              | Bank guarantee issued by PKO BP S.A. within the MPCF limit   | Security for a prepayment for catalyst   |
| WTT of Warsaw, upon GA S.A.'s instruction   | EUR 69 thousand                         | Oct 6th 2017                             | Dec 19th 2020                              | Bank guarantee issued by PKO BP S.A. within the MPCF limit   | Security for timely payments and other obligations under a rental contract   |
| Bank guarantee issued by PKO BP S.A. to Umicore Precious Metals Refining upon Grupa Azoty KĘDZIERZYN's instruction                | 13,715                                  | Mar 15th 2017                            | Nov 30th 2017                              | Bank guarantee issued by PKO BP S.A. within the MPCF limit   | Payment guarantee concerning the 'Agreement for earlier production of metals related to Recovery Agreement No. 13.171.000' of March 9th 2017 |
| Tax Administration Chamber in Szczecin upon Grupa Azoty POLICE's instruction  | 4,000 (reduced to 1,000 on May 22 2017) | Mar 24th 2017 (annex)                    | May 22nd 2018                              | Bank margin  | Customs debt payment guarantee   |
| GAZ-SYSTEM S.A. upon Grupa Azoty POLICE's instruction   | 3,522                                   | Dec 1st 2017                             | Nov 30th 2018                              | Bank margin  | Security deposit for gas transmission contract   |
| Bank guarantee issued by PKO BP S.A. to the Chief Inspector of Environmental Protection upon Grupa Azoty KĘDZIERZYN's instruction | 2,305                                   | - May 4th 2017<br>- Jun 9 2017 (Annex 1) | Sep 30th 2018                              | Bank guarantee issued by PKO BP S.A. within the MPCF limit   | Payment guarantee - securing coverage of costs of waste collection by Umicore Precious Metals Refining                                       |
| GAZ-SYSTEM S.A. upon Grupa Azoty KĘDZIERZYN's instruction   | 1,932                                   | Nov 29th 2017                            | Nov 30th 2018                              | Bank guarantee issued by PKO BP S.A. within the MPCF limit   | Security deposit for gas transmission contract   |
| PSE S.A. upon Grupa Azoty POLICE's instruction  | 1,300                                   | Mar 17th 2017 (annex)                    | Dec 31st 2017                              | Bank margin  | Security deposit for electricity transmission contract   |
| PSE S.A. upon Grupa Azoty POLICE's instruction  | 1,300                                   | Nov 15th 2017 (annex)                    | Dec 31st 2019                              | Bank margin  | Security deposit for electricity transmission contract   |
| GAZ-SYSTEM S.A. upon the Parent's instruction   | 733                                     | Nov 24th 2017 (annex)                    | Nov 30th 2018                              | Bank guarantee issued by PKO BP S.A. within the MPCF limit   | Security deposit for gas transmission contract   |
| Rafako S.A. upon Grupa Azoty's instruction<br>Prorem Sp. z o.o.   | 640                                     | Jul 7th 2017                             | Jul 7th 2020                               | 20% of the guarantee amount is a cash deposit paid into a bank account, while the remaining 80% is within the limit under the Framework Bank Guarantee Agreement with PKO BP | Performance bond   |
| Head of the Tax Administration Chamber in Kraków<br>Beneficiary: State Treasury upon the Parent's instruction                     | 450                                     | Nov 28th 2017                            | No time limit                              | Bank guarantee issued by PKO BP S.A. within the MPCF limit   | Security for customs procedures  |



Directors' Report on the operations of Grupa Azoty S.A. and the Group  
for the 12 months ended December 31st 2017  
(all amounts in PLN '000 unless indicated otherwise)

| Guarantee recipient  | Total guarantee amount (PLN '000) | Guarantee date        | Period for which the guarantee was granted | Financial terms  | Type   |
|--|-----------------------------------|-----------------------|--|--|--|
| Grupa Azoty POLICE upon Prozap Sp. z o.o.'s instruction  | 375                               | Apr 10th 2017         | Oct 20th 2020                              | Payment of 100% of funds into PKO BP account   | Grupa Azoty Group company Performance bond   |
| Bank guarantee issued by PKO BP S.A. to Zamak Mercator Sp. z o.o. upon Grupa Azoty KĘDZIERZYN's instruction  | 295                               | Mar 15th 2017         | Jul 17th 2017                              | Bank guarantee issued by PKO BP S.A. within the MPCF limit   | Payment guarantee (concerning a plastics granulation line supported by RES-2P/24A Explorer twin-screw extruder) Agreement No. 361/EC/LS/CBP/2016 of February 22nd 2017 |
| PGE Górnictwo i Energetyka Konwencjonalna S.A. upon Grupa Azoty KĘDZIERZYN's instruction   | 259                               | Dec 19th 2017         | Jan 30th 2019                              | Bank guarantee issued by PKO BP S.A. within the MPCF limit   | Performance bond under contract for supply of 40% solution of technical-grade urea to Elektrownia Opole branch   |
| GAZ-SYSTEM S.A. upon the Parent's instruction  | 234                               | Nov 24th 2017 (annex) | Nov 30th 2018                              | Bank guarantee issued by PKO BP S.A. within the MPCF limit   | Security deposit for gas transmission contract   |
| SABIC (Saudi Arabia) upon Prozap Sp. z o.o.'s instruction  | 224                               | May 15th 2017         | Feb 28th 2018                              | Block on funds of PLN 350 thousand in an account at BGK  | Entity from outside the Grupa Azoty Group. Advance payment counter guarantee   |
| Grupa Azoty POLICE upon ERBUD S.A.'s instruction   | 50                                | Feb 22nd 2017         | May 31st 2017                              | -  | Guarantee for bid bond insurance   |
| Mostostal Zabrze Realizacje Przemysłowe S.A. upon Grupa Azoty Prorem Sp. z o.o.'s instruction  | 50                                | Jan 12th 2017         | Jan 12th 2020                              | 20% of the guarantee amount is a cash deposit paid into a bank account, while the remaining 80% is within the limit under the Framework Bank Guarantee Agreement with PKO BP | Performance bond increased in connection with annex 1 to agreement No. 01/ZMO/2016   |
| Mostostal Puławy S.A. upon Grupa Azoty Prorem Sp. z o.o.'s instruction   | 30                                | Aug 9th 2017          | Jul 20th 2020                              | 20% of the guarantee amount is a cash deposit paid into a bank account, while the remaining 80% is within the limit under the Framework Bank Guarantee Agreement with PKO BP | Performance bond   |
| Zakład Odzysku i Składowania Odpadów Komunalnych (Municipal Waste Recycling and Landfilling Company) upon Grupa Azoty Police Serwis Sp. z o.o.'s instruction | 11                                | Sep 5th 2017          | May 13th 2019                              | PZU S.A. insurance guarantee   | Warranty bond  |
| Zakład Odzysku i Składowania Odpadów Komunalnych (Municipal Waste Recycling and Landfilling Company) upon Grupa Azoty Police Serwis Sp. z o.o.'s instruction | 2                                 | Sep 5th 2017          | Jun 12th 2019                              | PZU S.A. insurance guarantee   | Warranty bond  |

Source: Company data.

### Letters of credit issued

In 2017, the following import letters of credit were issued upon Grupa Azoty PUŁAWY's instruction by PKO BP S.A. under a multi-purpose credit facility agreement:

- On July 5th 2017 - a letter of credit for EUR 2,040 thousand, expiring on June 30th 2018, for the benefit of a process unit vendor.
- On August 4th 2017 - a letter of credit for EUR 19,013 thousand, expiring on August 30th 2019, for the benefit of a process unit vendor. On September 22nd 2017, a payment of EUR 6,338 thousand was made under this letter of credit. As at December 31st 2017, the credit balance under the letter of credit was EUR 12,675 thousand;
- On October 19th 2017 - a letter of credit for EUR 1,388 thousand, expiring on September 30th 2019, for the benefit of a vendor of process unit equipment.
- On November 22nd 2017 - a letter of credit for EUR 1.5 thousand, expiring on July 24th 2018, for the benefit of an equipment vendor.
- On December 13th 2017 - a letter of credit for EUR 19.7 thousand, expiring on April 30th 2018, for the benefit of an equipment insert vendor.
- On December 27th 2017 - a letter of credit for EUR 481.6 thousand, expiring on March 31st 2018, for the benefit of an equipment vendor.

September 29th 2017 was the expiry date of two import letters of credit issued upon the Parent's instruction by PKO BP S.A. to secure liabilities under the contract for the construction of Polyamide Plant II, of which the following amounts remain outstanding: EUR 139.5 thousand and EUR 810 thousand.

On December 4th 2017, two import letters of credit for these amounts were issued upon the Parent's instruction by PKO BP S.A., one for EUR 139.5 thousand and one for EUR 810 thousand, extending the term of the security granted for liabilities under the contract for the construction of Polyamide Plant II until November 30th 2018. The letters of credit were issued under the multi-purpose credit facility agreement concluded with PKO BP S.A.

On December 28th 2017, upon Grupa Azoty POLICE's instruction, an annex was issued to a standby letter of credit for USD 1,300 thousand, expiring on December 30th 2018, for the benefit of Marsulex Environmental Technologies.

## 5.9. Material off-balance-sheet items

The Group companies reported blank promissory notes and guarantees issued upon their instruction. Blank promissory notes issued by the Group companies and guarantees issued by banks or insurance companies upon the Group companies' 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.

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

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

### Currency risk management

In 2017, the Group applied the 'Financial (Currency and Interest Rate) Risk Management Policy', as an element of the Group's centralised Financing Model. The policy is also applied by those Group companies which are exposed to material levels of currency and interest rate risk.

- Identification of currency risk  
The 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 sale and procurement transactions, trade receivables and payables, as well as receivables and liabilities from financing and investing 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 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.

- **Level of currency hedging**

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 approval from the Management Board 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, investing and financing contracts and 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.

Pursuant to the 'Policy of Financial Risk Management (Currency Risk and Interest Rate Risk)', the Grupa Azoty Group may enter into hedging transactions with horizons of up to 24 months, provided such transactions reduce the adverse effect of fluctuations in exchange rates on the cash flows (and the Group complies with the adopted hedging limits and hedge ratios and acts consistently with the applied VaR methodology).

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. Execution of currency hedging transactions where the hedge horizon is more than 24 months or the transaction does not conform to the Financial Risk Management Policy requires approval by the Management Board based on the recommendation of the Finance Committee.

### **Interest rate risk management**

The 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 at variable and fixed market interest rates.

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

- Reducing the adverse effect of fluctuations in interest rates on cash flows,
- 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 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 uniform credit risk management policy and procedure in place, which has been adopted by all key companies of the Group which are exposed to such risk.

- 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.
- Identification of cash investment instruments  
The Group is allowed to use the following instruments to invest cash:
  - Bank deposits with banks of good financial standing,
  - Polish treasury bills and bonds,
  - Other instruments of a similar nature.
- Trade credit limits:  
The total amount of trade credit granted to trading partners by a 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 condition.
- 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 placement of a deposit with a term of more than one year requires approval by the Management Board member in charge of finance or the President of the Grupa Azoty Management Board.
  - b) Provision of trade credit
    - The Group determines trade credit limits based on requests received from teams responsible for execution of a sale transaction,

- A trade credit limit does not require a separate approval if it is insured or relevant security is provided by a bank or other institution with high creditworthiness,
- In other cases, a trade credit limit decision requires approval by the Corporate Finance Department (for limits of up to PLN 2m), by the Credit Risk Committee (up to PLN 5m), or by the Management Board member in charge of finance or President of the Grupa Azoty Management Board (over PLN 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 Group**

As part of trade credit risk management, the Group cooperates with leading insurance companies, 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 amounts of trade credits to the limits granted by individual insurers to their clients which are also customers of the Group.

Given the above, the Parent (with Grupa Azoty SIARKOPOL, Zakłady Azotowe Chorzów S.A., Agrochem Puławy Sp. z o.o., Agrochem Sp. z o.o. and GZNF Fosfory Sp. z o.o. as co-insured) and Grupa Azoty KĘDZIERZYN signed uniform global receivables insurance agreements with KUKE, expiring in July 2019. Grupa Azoty PUŁAWY signed a receivables insurance agreement on the same terms with EULER HERMES, expiring in January 2019. Grupa Azoty POLICE executed a global insurance agreement with ATRADIUS, based on the uniform terms of insurance, valid until November 2019.

### **5.11. Expected financial condition**

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

In 2017, 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 2017, the Parent paid dividend from the 2016 profit of PLN 78,364 thousand, with the balance of the profit allocated to support continued implementation of the Investment Strategy. The other Group companies also paid out dividend from their 2016 profit, in accordance with relevant dividend resolutions passed by their respective general meetings.

The Group has access to overdraft limits under physical cash pooling, which the Parent may use at times of increased demand for funding at the 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 strategic lenders view its financial condition as sound, and there are no material threats or risks of its deterioration in the future.

The Group's Budget for 2018 takes into account all market information (forecasts) available to the Group and detailed budgets of its individual business units. The Budget accounts for the main assumptions and optimises economic parameters derived from trends identified in the macroeconomic environment and internally, within the organisation.

The Group intends to consistently implement the financial and investment objectives assumed in the strategy, designed to ensure that the return on investment expected by investors is achieved, while further diversifying its market risk exposure.

To mitigate the impact of adverse external factors, the Group continues to diversify its supplies of natural gas (a key feedstock), actively manages its foreign exchange risk, interest rate risk and risk related to increasing prices of CO<sub>2</sub> emission allowances.

External factors with an impact on earnings in fertilizers, plastics and chemicals will be the prices of key feedstocks, including natural gas, coal, electricity and benzene, as well as competition from rivals in the Group's sales markets.

The Group successfully sells all of its fertilizer production on the domestic and international markets despite an increased supply from countries lying east of Poland by offering a complete range of products and services for end customers, reliable deliveries and premium product quality.

In chemicals, the Group expects the melamine and urea solutions markets to remain stable in 2018, supporting the segment's financial performance. The volumes of caprolactam consumed internally for polyamide production will gradually increase in 2018 to supply the new polyamide plant at the Parent, brought on stream in 2017.

## 6. Risk, threats and growth prospects

### 6.1. Significant risk factors and threats

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

The risk relates to the Group, including the Parent, and the exposure is defined as medium.

Risk related to prices and operational disruptions caused by a lower-than-expected or restricted supply of adequate volumes of natural gas of the right grade and quality required for production.

In its search for competitive sources of gas, the Group seeks to diversify both the geographical regions and suppliers of gas, providing details of its efforts in 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 S.A.), annual or shorter contracts with a number of other suppliers, and transactions on energy exchanges and the OTC market to meet its short-term demand. Currently, all of the gas purchased by the Group is priced based on exchange quoted prices. The gas interconnector and gas storage facility extension projects, currently being implemented in Poland, and the operation of the LNG terminal in Świnoujście have minimised the risk of disruptions in gas supply. The Group companies also focus on reducing their gas consumption costs by implementing projects designed to reduce gas consumption. Moreover, the European Parliament's security of gas supply regulation of September 12th 2017 provides a set of cross-border measures to deal with supply shortages, reducing the risk of supply disruptions.

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

The risk relates to the Group, including the Parent, and the exposure is defined as medium.

The risk lies in the possibility that major growth-oriented initiatives 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.

The Group companies are working on investment projects commenced in previous years, while embarking on new ones, strategically important for the Group's interests. Delivery of the Strategy depends on a range of factors, including those outside of the Group's control. The risks to the implementation of the Strategy are external developments in the Group's environment, such as macroeconomic factors, market conditions, business environment and activities of the main competitors. This could adversely affect the Group's ability to develop its business as planned and to deliver its strategic objectives. The Operationalisation of the Group's Strategy for 2014–2020 lists the strategic projects pursued by the Group. In order to minimise the risks to the execution of strategic projects at the 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 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 progress of financing of the projects to identify potential threats. These policies also take into account the obligations and requirements imposed on beneficiaries of public funding.

#### **Risk associated with new legal requirements relating to production processes, including environmental regulations**

The risk relates to the Group, including the Parent, and the exposure is defined as medium.

Risk associated with new legal requirements relating to production processes, including environmental regulations on GHG emissions or other forms of adverse environmental impact. Grupa Azoty continuously monitors all planned and implemented changes in the legal environment which could affect its operations. Investments necessary in the light of new regulations are included in the Group's investment plans.

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 allotted allowances decreases by several per cent. If actual CO<sub>2</sub> emissions are not covered by the free allowances, the Group may need to incur additional capital expenditure on projects designed to reduce its 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 production processes and greenhouse gas emissions. Implementation of the adopted Energy Policy has been confirmed with a certificate of the Energy Management System's compliance with ISO 50001. When increasing production volumes or launching new installations covered by the EU ETS, the companies apply to the Ministry of the Environment for allocation of additional greenhouse gas emission allowances from the MSR on an as-needed basis.

The Group takes steps to ensure its compliance with the requirements of the IED Directive, which entered into force as of January 1st 2016 and defined new emission standards for the combustion of fuels in installations (Regulation of Minister of the Environment of November 4th 2014 on emission standards for certain units, fuel combustion sources, as well as waste incineration and co-incineration equipment). The new standards in particular apply to sulfur dioxide, NO<sub>x</sub> and particulate matter emission limits.

The IED Directive and the Environmental Protection Law provide for postponing the effective date of the more restrictive emissions standards. One such mechanism is the Transitional National Plan (TNP). The fuel combustion facilities operated by the Group have also been submitted for inclusion in the TNP. The following investment projects have been undertaken to meet the above standards:

- Grupa Azoty KĘDZIERZYN Group - new coal-fired generating unit;
- Grupa Azoty S.A. of Tarnów - wet flue gas desulfurisation unit;
- Grupa Azoty POLICE Group - flue gas desulfurisation unit.

When the projects are completed, the Group will achieve compliance with the emission requirements under the IED Directive and Polish regulations.

On April 28th 2017, the European Commission voted to adopt the BAT Conclusions under the standards proposed in BREF for the LCP sector: Directive 2010/75/EU of the European Parliament and of the Council of 24 November 2010 on industrial emissions (IED).

The Group is analysing the effects of introducing the BAT Conclusions under the IED on the scope of necessary power generation upgrade projects. Pursuant to the new regulations, the required modernisation work must be performed within four years from the effective date of the BAT Conclusions. Following the scheduled review of the regulations on the Best Available Techniques for the Manufacture of Large Volume Inorganic Chemicals: ammonia, acids & fertilisers, there is a risk of implementing stricter and broader requirements relating to the air pollution emissions standards. Similarly, there is a risk that new BATs will be defined for the installations for which so far no BATs have been specified. In order to meet the BAT requirements, the Group companies monitor any drafts of new laws and regulations on an ongoing basis and actively present their opinions on the proposed legislation. The Group's activities in this area include: reviewing the efficiency of applied technologies in relation to development trends in the competitive environment, planning and implementing projects designed to achieve the BAT/BREF level at production units, searching for new process solutions, in particular with a view to increasing efficiency and reducing energy intensity in relation to the applicable regulations and technology advancement, as well as developing and enhancing the product range with new fertilizers based on ingredients produced at existing units.

#### **Risk of deteriorated supply-demand balance**

The risk relates to the Group, and the exposure is defined as high.

The risk is associated with a supply-demand imbalance caused by limited consumption of products and/or their oversupply.

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

- Increased imports of nitrogen and compound fertilizers, produced based on cheaper raw materials, to Poland and the EU, and consequently persisting oversupply and aggressive pricing policies pursued by importers struggling to maintain their shares in the fertilizers market;
- Launch of significant new manufacturing capacities, particularly in the urea market (USA, Algeria, Russia) where oversupply periodically affects prices of other nitrogen fertilizers;
- Increase of production capacities of nitrate fertilizers in Hungary and stronger impact of this product on the market in southern Poland;

- Ban on trade in nitrate and CAN in Turkey, introduced for an indefinite period in response to terror attacks in the country – search for EU markets to sell products manufactured in or imported by Turkey;
- Mergers and acquisitions among chemical producers, which might enable them to exert stronger pressures on the EU fertilizers market;
- Competition growing stronger as new products are marketed and more effective technologies applied;
- Marketing structures being established in Poland by foreign-invested distribution companies, which results in sale of imported fertilizers;
- Marketing structures being established in Poland by fertilizer manufacturers from the East, e.g. PhosAgro, which may lead to higher sales of imported fertilizers in a longer term.

In order to mitigate the identified risks and to strengthen and consolidate its leadership in the segment, the 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 fertilizers segment:

- Implementation of the Group's updated distribution strategy,
- Implementation of projects designed to improve the efficiency of production processes,
- Strengthening the Group's position through acquisitions and placement of new products on 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:

- Global oversupply of caprolactam and polyamide. Excess volumes from the Far East are shipped to Europe, as a result of which traditional export markets of EU manufacturers begin to shrink and prices decline to unsatisfactory levels,
- Mergers and acquisitions among chemical producers, which might enable them to exert stronger pressures on the EU market.

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

- Launch of a new PA6 unit in Tarnów, with an annual production capacity of 80,000 tonnes, which will balance the entire caprolactam production volume within the Group. Extension of the CPL - PA6 product chain will be an additional benefit;
- The Parent is finalising arrangements for 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 (PA6 > PA6 compounds);
- Preparation of a long-term caprolactam manufacturing cost reduction programme;
- Leveraging the synergies between Tarnów's and Puławy's units following the integration of the companies' production capacities and sales potential;
- Responding to customer expectations by offering new products tailored to specific customer needs;
- Efforts to optimise the portfolio of raw material suppliers, with particular emphasis on direct partnerships with producers under long-term strategic contracts, and to develop an optimum procurement logistics model;
- Continuation of the policy to diversify sales of caprolactam and polyamide;
- Monitoring the situation for any possible threats to be able to take necessary steps and mitigate adverse effects of such negative developments.

In the Chemicals segment, the Grupa Azoty Group has identified risks related to:

- Weaker demand for titanium white from paint and varnish manufacturers, higher quality requirements in the plastics and paper industries, significant increase in the production capacities of Chinese manufacturers, and plans to classify titanium white as a carcinogen;
- Higher supply of OXO alcohols on balanced European markets, driven by heavy inflows of cheaper alcohols, especially from the Russian market;



- Import of plasticizers to the balanced and highly competitive EU market, on which a wide range of plasticizers are available – the risk related to imports of non-phthalate plasticizers from the Korean and Turkish markets is particularly significant.

The Group takes defensive measures against the consequences of risks by:

- Adapting its product mix to the market requirements and needs, for instance by launching a unit producing Oxoviflex™, a non-phthalic plasticizer, and, as production capacities grow, by seeking new customers for this product; by 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);
- Projects aimed at minimising production costs of each product,
- Active participation in public affairs marketing and trade associations.

### Currency risk

The risk relates to the Group, including the Parent, and the exposure is defined as medium.

Risk of excessive finance costs, failure to achieve profit guidance or targets as a result of adverse exchange rate changes (taking into account the hedging programme).

The Group has positive exposure to the euro and the US dollar, which is hedged based on ongoing monitoring of movements in the euro and US dollar exchange rates. The Group hedges its currency exposures using currency forwards and natural hedging. Since 2014, the Group has applied the Financial (Currency and Interest Rate) Risk Management Policy. Since 2015, a centralised financing model has also been in place, supporting a long-term hedge horizon by contracting a portion of long-term financing in the form of a euro-denominated facility. Starting from 2017, the Group has also reduced its euro-denominated net currency exposure as a result of increasing the extent of natural hedging, by denominating and settling in this currency its gas supply contract with PGNiG S.A.

The Group's Risk Committee analyses and sets consolidated targets for currency exposure of the Group and its leading companies, and recommends target levels and horizons of hedges, types of currency instruments, and exchange rates for hedge transactions. Hedging transactions are executed by those Group companies where the exposure actually occurs. The applied risk management methods enable the Group to limit the existing risk exposure 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 condition or performance. In addition, the Group applies hedge accounting by matching specific foreign currency positions to be hedged with hedging instruments with a time horizon of more than one year.

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

The risk relates to the Group, and the exposure is defined as low.

The risk is related to the cost of raising financing or the cost of access to capital, which may slow down the Group's growth.

One of the factors important for the successful development of the Group's business is the implementation of strategic projects and availability of capital for such projects, as discussed in Operationalisation of the Strategy for 2014–2020. There is a risk that insufficient access to capital or other sources of funding, or availability of such capital or other sources of funding at excessive cost, might adversely affect prospects for the Group's development and delivery of its strategy or that the Group might use the available capital in an inefficient manner and thus achieve returns that fall short of investors' expectations. Under the consolidated financing model implemented in 2015, the Group executed a harmonised package of corporate financing agreements, thus enhancing its long-term security, based on uniform financing covenants agreed with banks, including a net debt to EBITDA ratio, which should not exceed 3.0x. The Group also intends to pursue major investment projects via SPVs and to secure their financing in the form of project finance (without recourse to the Group), which may lead to a significant increase of debt in the future and require optimising selected covenants of the existing corporate financing agreements.

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

The risk relates to the Group, including the Parent, and the exposure is defined as medium.

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 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 prices of emission units purchased on the spot market and by purchasing CO<sub>2</sub> 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 to ensure full coverage of any deficit of emission allowances that should be allocated for a given year and subsequently redeemed, at prices not higher than projected. The Group has appointed the EU ETS Management Committee, with representatives of all key Group companies. Its main role is to supervise a joint model for managing CO<sub>2</sub> emission allowances at the Group companies, in particular the CO<sub>2</sub> Emissions Trading Strategy, and subsequently the implementation of the Emissions Trading Strategy binding on all Group companies.

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

The risk relates to the Group, including the Parent, and the exposure is defined as low.

The risk of major industrial accidents defined in accordance with the Environmental Protection Law or technical failures disrupting the continuity of processes and operation of production units of key importance for the implementation of the enterprise's objects.

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. 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 minimise 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 major accidents and environmental contamination, as well as risks to life and health,
- 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),
- Carrying out scheduled technical stoppages and maintenance shutdowns to ensure that the units are kept in a proper working order,
- Continuous improvement of the employees' qualifications through training courses, etc.
- Introduction of corporate rules at 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 Grupa Azoty,
- 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.

The additional risk of consequences of industrial accidents is transferred to the insurer.

#### **Risk related to maintaining continuity of production and availability of ammonia at economically viable prices**

The risk relates to the Group, including the Parent, and the exposure is defined as medium.

To mitigate the risk and to strengthen and consolidate its leading position, the Group takes steps to:

- Diversify suppliers of natural gas and ammonia,
- Maintain ammonia stocks at optimum levels at the Group, to ensure continuity of supplies and production of ammonia and caprolactam,
- Prepare reduced-output scenarios based on break-even points for key products,

- Analyse on an ongoing basis maximum ammonia purchase prices to achieve product profitability,
- Analyse on an ongoing basis fixed and variable costs of production to determine economic viability of purchasing ammonia outside the Group,
- Maintain the operational reliability of units by carrying out overhauls, upgrades and investments, in particular in areas covered in the technical risk analysis.

**Risk of implementation/tightening of EU or local regulations that would restrict the use or application of the company's products**

The risk relates to the Group, and the exposure is defined as medium.

The Group monitors and implements new requirements on an ongoing basis. The Group takes an active part in the work of registration consortia and European associations, and cooperates with Polish institutions to receive advance information on upcoming changes in the legislation. In each case the Group reviews the impact of new regulations on its operations and marketed products. Possible amendments tightening EU directives or regulations applicable to the Group's key manufacturing and trading activities give rise to a potential risk that the use or application of the Group's products by customers in the EU countries may be restricted.

The Group is currently identifying risks posed by the Draft of a new Fertilizer Regulation of the European Parliament and of the Council, intended to replace the existing Regulation (EC) No. 2003/2003 of the European Parliament and of the Council of September 13th 2003, relating to fertilizers. The new document is designed to implement the principles of the Circular Economy package. The proposal assumes an uninterrupted flow of goods on the single EU market, preceded by mandatory harmonisation of fertilizing products (CE marking). The European Commission's proposal also covers the use of organic waste and bio-waste as raw materials to manufacture fertilizers, as well as recycling and reuse of valuable manufacturing components. The new rules will apply to all types of fertilizers to ensure the highest level of soil protection. The Regulation introduces strict limits for heavy metal contamination, including cadmium content in phosphate fertilizers. The European Commission assumes that this will reduce health and environmental risks. Moreover, this way the EU intends to reduce the dependence of the fertilizer industry on imports of phosphorus-bearing materials. The Group is actively participating in the work on the wording of this regulation. The Group appointed a dedicated expert team which actively participates in the legislative work. In cooperation with other members of the Alliance Européenne des Engrais Phosphates AEEP, the Group maintains regular communication with key Members of the European Parliament and the Polish government's representatives to the EU Council, and holds discussions with representatives of the European Commission which has proposed the new legislation. The Grupa Azoty Group's activities are designed to include, in the new regulation, an 80 mg limit of cadmium per 1 kg of phosphorus pentoxide (P<sub>2</sub>O<sub>5</sub>). On the one hand, this would enable the European Commission to achieve its pro-environmental objective and, on the other, the industry to adapt its operations to new limits and implement a new technology. At the same time, the Group engages in research and development work in partnership with research institutes to develop technologies for removal of heavy metals from fertilizer product streams. Work is under way to implement into Polish law the Directive of the European Parliament and of the Council on the reduction of national emissions of certain atmospheric pollutants and amending Directive 2003/35/EC (NEC Directive, COM(2013)92). The draft proposes that ammonia emissions be reduced. The agricultural sector can expect new requirements concerning ammonia emissions from different types of mineral fertilizers, primarily those based on ammonia (especially urea) rather than nitrate fertilizers. Additionally, the Group monitors other aspects of EU regulations, such as free trade agreements (DCFTA Ukraine, TTIP). The Parent also takes steps to ensure that the entire manufacturing and distribution process meets the safety requirements applicable to trading in its products.

**Risk of higher fertilizer imports (Europe, China, Russia, Africa, America)**

The risk relates to the Group, including the Parent, and the exposure is defined as high.

The risk of periodically increasing volumes of fertilizers imported into Poland from other European Union countries and worsened economics as a result of squeezed product margins caused by the emergence of new market players and a significant volume of imported fertilizers. Accordingly, there is a risk of failure to achieve targeted revenue from sales of fertilizers.

The key component of fertilizers production costs is the cost of natural gas, which translates directly into the price competitiveness of products offered by Group. Moreover, fertilizers production costs in the European Union are affected by an added regulatory burden, concerning in particular CO<sub>2</sub> emissions. Increasing supply of fertilizers produced with the use of cheap gas and the sector's growing manufacturing capacities have led to intensified competition in the fertilizer market. In the face of

these challenges, to strengthen its competitive advantages in the fertilizers segment, the Group takes numerous measures, including:

- Implementation of the Group's updated distribution strategy,
- Implementation of projects designed to improve the efficiency of production processes,
- Searching for alternative sources of cheaper natural gas supply,
- Strengthening the Group's market position through acquisitions and placement of new products on 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.

## 6.2. Significant external and internal growth factors

### Market overview

The main driver of economic growth in 2017 was private consumption coupled with steadily growing investment. An observable slowdown in economic activity in Poland in the second half of 2017 was largely attributable to lower transfers of EU funds and uncertainty across markets. Both factors should, however, be considered transitory.

GDP growth in 2018 should remain at 3.5%-4.0% and is likely to be supported by projected stronger economic growth of Poland's main trading partners, particularly Germany. Risk that the Polish GDP will grow at a rate slower than anticipated in this scenario is mostly related to a potential global economic downturn. It is, however, noteworthy that in the coming years Polish economy will be expanding faster than the economies of such countries as the US and UK, and of the eurozone.

Sustainable growth of the entire economy, free of any significant systemic risks, coupled with a stable and well-capitalised banking sector, warrants a continued bright outlook for 2018.

Major sources of uncertainty include an unclear future of the US economy and inability of the country's federal administration to push through comprehensive reforms, as well as an economic slowdown in China and potential risks to the stability of its financial system due to mounting debt (linked markets).

Factors which will affect the Group's results over at least the next reporting period include:

- Supply and demand situation on the markets of natural gas, coal, electricity and petroleum products (mainly propylene, benzene and phenol) and possible seasonal and cyclical fluctuations in prices,
- Situation in agriculture and the fertilizers industry, including prices of agricultural produce staying low in the long term,
- Conditions prevailing in the main sectors which purchase the Group's products and on the markets where those sectors sell their products.

### Interest rates in Poland

In 2017, interest rates in Poland remained unchanged. As announced by the Governor of the National Bank of Poland, despite a rise in inflation, which continued within the central inflation path projected by the Monetary Policy Council (2.50%), interest rates are expected to remain unchanged throughout 2018.

As a result, the Group's base interest rate (1M WIBOR) in 2017 stayed at approximately 1.65%, which had a positive effect on stabilising the Group's borrowing costs at a relatively low level, and translated into a solid debt service capacity.

In the eurozone, in view of the sustainably positive economic growth, the European Central Bank has announced that it will primarily focus on scaling down quantitative easing in 2018, while keeping its negative interest rate policy in place until a significant inflationary impulse intensifies, in order to bolster economic growth in the context of UK's upcoming exit from the European Union.

On the other hand, given the sustained stable growth of the US economy and concerns regarding increased inflationary pressures, the Fed is expected to gradually raise interest rates for USD-denominated debt in 2018.

To conclude, any adverse changes to the current low interest rates on debt in currencies used by the Group to finance its activities (PLN and EUR) are unlikely before the end of 2018. Thus the risk of the Group's financial condition or results of operations deteriorating on higher borrowing costs is considered low.

In terms of market rates, a relatively narrow spread between credit and deposit rates available to the Group is expected to continue.

Interest income earned on free cash under cash pooling and fixed-term deposits will partially offset the borrowing costs.

As at December 31st 2017, the Group did not carry any unrealised interest rate risk hedges.

### Regulatory area

At the EU level, legislative process is still under way to adopt the final draft of the new fertilizer regulation, published by the European Commission in March 2016. Currently, tripartite talks, or a 'trilogue,' are being held between the European Commission, the European Parliament, and the Council of the European Union. The Group keeps working to ensure that the regulation includes provisions that are most favourable to its business. In this respect, it cooperates with the Ministry of Development, Members of the European Parliament, Permanent Representation of the Republic of Poland to the European Union and various Polish and foreign organisation (e.g. AEEP - Alliance Européenne des Engrais Phosphatés, Fertilizers Europe). Following successful completion of the trilogue negotiations, a final version of the regulation will be adopted, including substance content limits and its effective date.

### Trade policy

- The duty imposed on ammonium nitrate imports from Russia has remained in force. On September 23rd 2014, the European Commission passed an implementing regulation on this matter as a response to a petition filed in March 2013 by Fertilizers Europe, a European association of fertilizer manufacturers of which Grupa Azoty is a member. However, in August 2017, the European Commission initiated a partial interim review of the anti-dumping measures applicable to imports of ammonium nitrate originating in Russia. Requests for a review were lodged with the EC by two Russian producers and by eight farmers associations from EU countries. Pursuant to the Commission Regulation of 2014, anti-dumping duties of up to EUR 47 per tonne on ammonium nitrate imports were to apply until 2019, which could be regarded as a measure guaranteeing stability on the European fertilizer market.
- Following an anti-dumping investigation, the European Commission imposed, by means of Implementing Regulation (EU) No 2017/1171, a definitive anti-dumping duty on imports of melamine originating in China. The measures took the form of a fixed duty of EUR 415 per tonne on all imports from China with the exception of three cooperating Chinese exporting producers, which were granted a minimum import price of EUR 1,153 per tonne. The measures were imposed for a period of five years, i.e. until July 2nd 2022, counted from the day following the date of their publication in the Official Journal of the European Union (July 1st 2017).
- The anti-dumping duty on caprolactam imports from the European Union and the United States, imposed by China on October 22nd 2011 for a period of five years, expired. The Chinese authorities are likely reviewing the situation to decide whether to extend or abolish the caprolactam duties. Among the companies subject to the duty is the Parent, for which the rate was set at 4.4%.

## 7. Shares and shareholding structure

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

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

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

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

As at December 31st 2017 and as at the date of this report, none of the members of the Parent's Management or Supervisory Boards held any shares in the Parent's share capital.

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

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

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

## 7.3. Grupa Azoty 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. Grupa Azoty 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 domestic indices and the chemical sector index, WIG-Chemia.

The Parent is included in the following foreign indices:

- MSCI Emerging Markets Index (since February 2013). The index includes large and mid cap stocks.
- FTSE Emerging Markets Index (since March 2015). The FTSE Emerging Markets index is part of the FTSE Global Equity Index Series (GEIS), which includes large and mid cap stocks from advanced and emerging markets. The FTSE indices are listed on the London Stock Exchange.

The Parent is also included in CSR indices:

- Since November 19th 2009, the Parent has been a constituent of the RESPECT index of the Warsaw Stock Exchange,
- In January 2017, the Parent was included in FTSE4Good Emerging, following a thorough assessment of its performance in terms of environmental, social and corporate governance practices. The assessment was performed by FTSE Russell. The index was launched in December 2016 to add companies from emerging markets to the group of companies reporting their environmental, social responsibility and corporate governance performance.

All other key information on Parent shares, including information on voting restrictions, is presented in the sections concerning the *Statement of compliance with corporate governance rules*.

## Shareholding structure

Below are listed shareholders holding directly, or indirectly through subsidiaries, at least 5% of total voting rights at the General Meeting as at the date of this report, along with information on the number of shares held by such entities, their respective ownership interests, the number of voting rights held, and their share in total voting rights at the General Meeting.

### Shareholding structure as at December 31st 2017

| Shareholder  | Number of shares  | Ownership interest (%) | Number of votes   | % of voting rights |
|--|-------------------|------------------------|-------------------|--------------------|
| State Treasury   | 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.<br>(indirectly: 19,321,700 shares,<br>i.e. 19.47%) | 71,348            | 0.07                   | 71,348            | 0.07               |
| Rainbee Holdings Limited <sup>*)</sup>                                     | 9,820,352         | 9.90                   | 9,820,352         | 9.90               |
| Opansa Enterprises Limited <sup>l)</sup>                                   | 9,430,000         | 9.50                   | 9,430,000         | 9.50               |
| TFI PZU S.A.   | 8,530,189         | 8.60                   | 8,530,189         | 8.60               |
| European Bank for Reconstruction<br>and Development                        | 2,850,000         | 2.87                   | 2,850,000         | 2.87               |
| Other  | 25,875,763        | 26.10                  | 25,875,763        | 26.10              |
| <b>Total</b>   | <b>99,195,484</b> | <b>100.00</b>          | <b>99,195,484</b> | <b>100.00</b>      |

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

In the period from December 31st 2017 to the issue date of this report, the Parent was not notified of any changes in major holdings of its shares.

### Dividend policy

In accordance with the Parent's dividend policy, applied in line with its updated Strategy for 2013–2020, it decided not to set a lower limit for the dividend payout ratio, and to maintain the upper limit at 60%.

The main goal underpinning Grupa Azoty's financing structure is to ensure long-term financial security and internal coherence between all funding sources. Given the extensive capital investment programme in place and the risk of an economic downturn, no floor has been set for the dividend payout ratio. Accordingly, if justified, the Parent's Management Board will not recommend a dividend payment.

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

In the reporting period, the Parent distributed profit for 2016. The amount of profit allocated for distribution was PLN 78,364 thousand (i.e. PLN 0.79 per share).

The dividend record date and the dividend payment date were set for August 4th 2017 and August 23rd 2017, respectively.

### Dividend paid out in 2008–2016

| Year for which dividend was paid | Dividend record date | Dividend payment date       | Profit earned        | Total dividend     | Dividend per share |
|----------------------------------|----------------------|-----------------------------|----------------------|--------------------|--------------------|
| 2008                             | Jun 26th 2009        | Instalment 1: Aug 31st 2009 | PLN 61,935 thousand  | PLN 39,898,749.42  | PLN 1.02           |
|                                  |                      | Instalment 2: Nov 6th 2009  |                      |                    |                    |
| 2012                             | Apr 22nd 2013        | May 24th 2013               | PLN 250,692 thousand | PLN 148,793,226.00 | PLN 1.50           |
| 2013                             | Jun 18th 2014        | Jul 9th 2014                | PLN 44,117 thousand  | PLN 198,839,096.80 | PLN 0.20           |
| 2015                             | Jun 20th 2016        | Jul 11th 2016               | PLN 209,055 thousand | PLN 83,324,206.56  | PLN 0.84           |
| 2016                             | Aug 4th 2017         | Aug 23rd 2017               | PLN 224,775 thousand | PLN 78,364,432.36  | PLN 0.79           |

Source: Company data.

### Performance of Grupa Azoty shares

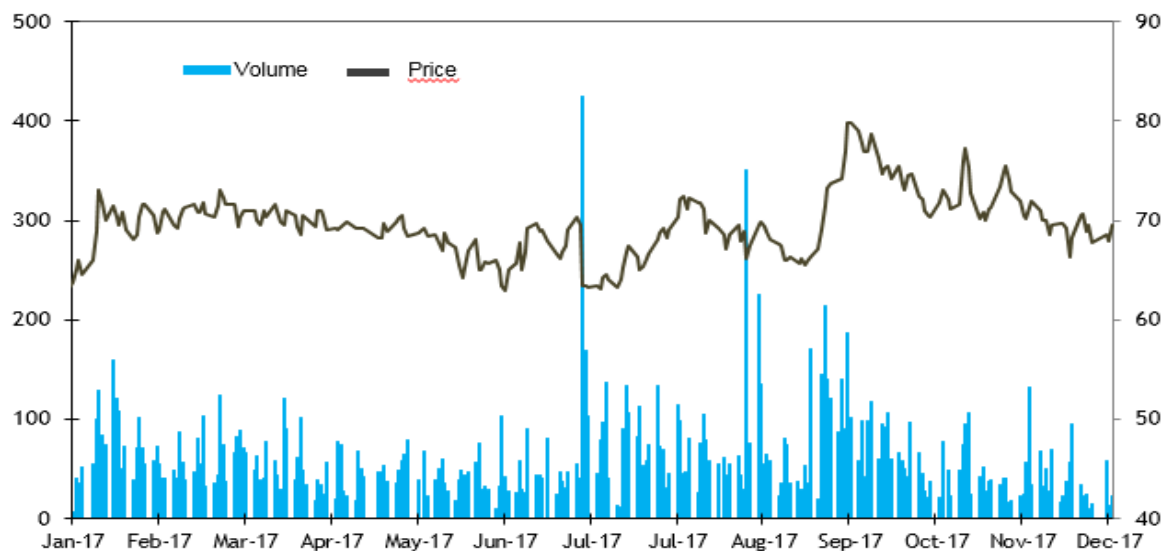
Early 2017 saw a rapid rise in the price of Company shares from PLN 63.80 to PLN 73 in January, after which the price remained more or less flat in the region of PLN 70 per share. In the period from May to early June, the price dropped to the year's low of PLN 63.01, after which it rebounded to PLN 69. In late June and early July, following a reduction in the European Bank for Reconstruction and Development's shareholding in the Company, the price of its shares fell to PLN 63.50. In July, the Company shares recovered to nearly PLN 72, after which their price dropped to around PLN 65 for a short period in September, to surge again until early October to the year's high of close to PLN 79. From October to mid-November, it trended gradually down to approximately PLN 70. In late 2017, the downward trend continued, with temporary spikes to PLN 77 and PLN 74. At the close of the last trading session in 2017, the price of Grupa Azoty shares was PLN 69.60.

### Performance of Grupa Azoty shares

| Metric                             | Unit of measurement | 2017       |
|------------------------------------|---------------------|------------|
| Number of shares                   | shares              | 99,195,484 |
| Capitalisation at year-end         | PLNm                | 6,904      |
| Average trading volume per session | shares              | 63,416     |
| Trading value                      | PLNm                | 1,106      |
| Highest closing price              | PLN                 | 79.80      |
| Lowest closing price               | PLN                 | 63.01      |

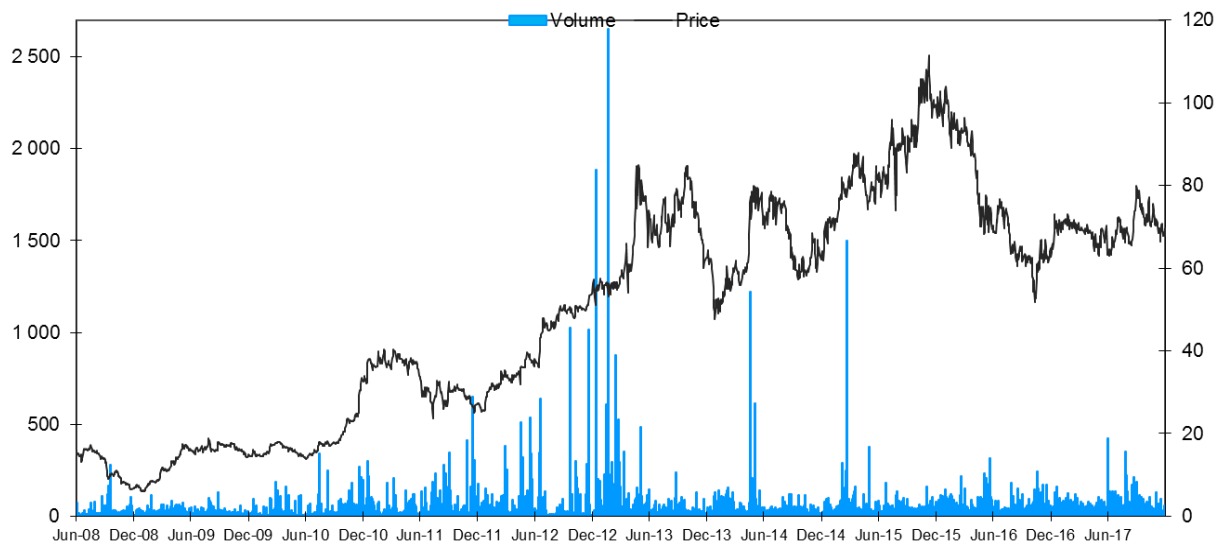
Source: In-house analysis based on the WSE Statistics Bulletin.

#### Grupa Azoty share price from January 2nd 2017 to December 29th 2017



Source: In-house analysis based on the WSE data.

#### Grupa Azoty share price from the IPO (June 30th 2008) to December 29th 2017



Source: In-house analysis based on the WSE data.

#### Recommendations

In 2017, ten brokerage houses covering the Parent issued 27 price target recommendations for its stock.



**Analyst recommendations for Grupa Azoty shares, published between January 2nd 2017 and the date of this report**

| Date       | Recommendati<br>on | Price target | Price at<br>recommendati<br>on date | Broker           |
|------------|--------------------|--------------|-------------------------------------|------------------|
| 2017-01-26 | hold ▲             | PLN 73.90 ▲  | PLN 71.60                           | DM mBank         |
| 2017-02-06 | hold ▲             | PLN 70.00 ▲  | PLN 71.20                           | DM BOŚ           |
| 2017-02-27 | hold ▲             | PLN 77.00 ▲  | PLN 71.70                           | Raiffeisen       |
| 2017-04-24 | hold ▲             | PLN 69.50 ▲  | PLN 69.88                           | TRIGON DM        |
| 2017-04-25 | ►                  | PLN 62.10    | PLN 70.11                           | Vestor DM        |
| 2017-04-26 | hold ▲             | PLN 70.00 ►  | PLN 70.58                           | DM BOŚ           |
| 2017-06-02 | buy ▲              | PLN 73.90 ►  | PLN 65.07                           | DM mBank         |
| 2017-06-07 | sell ▼             | PLN 55.00 ▼  | PLN 65.01                           | PKO BP           |
| 2017-06-07 | reduce ►           | PLN 59.60 ▲  | PLN 65.01                           | ERSTE Securities |
| 2017-06-23 | accumulate ▼       | PLN 74.30 ▲  | PLN 69.01                           | DM mBank         |
| 2017-07-03 | buy ▲              | PLN 74.30 ►  | PLN 63.43                           | DM mBank         |
| 2017-07-05 | buy ▲              | PLN 81.00 ▲  | PLN 64.25                           | DM BOŚ           |
| 2017-07-05 | buy ▲              | PLN 75.30 ▲  | PLN 64.25                           | Pekao IB         |
| 2017-07-17 | buy ▲              | PLN 79.00 ▲  | PLN 66.30                           | Raiffeisen       |
| 2017-07-18 | buy ▲              | PLN 82.00 ▲  | PLN 65.02                           | TRIGON DM        |
| 2017-07-28 | accumulate ▲       | PLN 75.00 ▲  | PLN 68.00                           | Vestor DM        |
| 2017-07-28 | accumulate ▲       | PLN 80.40 ▲  | PLN 68.31                           | DM BDM           |
| 2017-08-02 | hold ▲             | PLN 74.30 ►  | PLN 72.08                           | DM mBank         |
| 2017-08-24 | buy ►              | PLN 80.00 ▼  | PLN 66.12                           | DM BOŚ           |
| 2017-09-01 | hold ▲             | PLN 69.60 ▼  | PLN 68.14                           | DM mBank         |
| 2017-10-02 | hold ▲             | PLN 80.77 ▲  | PLN 79.00                           | DM mBank         |
| 2017-10-18 | sell ▼             | PLN 71.30 ▼  | PLN 73.00                           | DM BZ WBK        |
| 2017-10-18 | buy ►              | PLN 85.00 ▲  | PLN 73.00                           | DM BOŚ           |
| 2017-10-19 | buy ►              | PLN 85.80 ▲  | PLN 74.50                           | TRIGON DM        |
| 2017-12-01 | hold ▲             | PLN 78.52 ▼  | PLN 72.00                           | DM mBank         |
| 2017-12-08 | buy ►              | PLN 85.00 ▼  | PLN 69.60                           | TRIGON DM        |
| 2017-12-11 | sell ▼             | PLN 50.00 ▼  | PLN 69.70                           | DM BOŚ           |
| 2018-01-05 | hold ▲             | PLN 73.64 ▼  | PLN 74.40                           | DM mBank         |
| 2018-01-23 | sell ►             | PLN 50.00 ►  | PLN 75.35                           | DM BOŚ           |
| 2018-02-02 | hold ▲             | PLN 73.42 ▼  | PLN 69.50                           | DM mBank         |
| 2018-02-14 | accumulate ►       | PLN 68.60 ▼  | PLN 63.75                           | DM BDM           |
| 2018-03-05 | hold ▲             | PLN 67.13 ▼  | PLN 55.80                           | DMmBank          |
| 2018-03-07 | buy ►              | PLN 71.00 ▼  | PLN 56.50                           | Raiffeisen       |
| 2018-03-26 | buy ►              | PLN 67.30 ▼  | PLN 56.10                           | Pekao IB         |

Source: Company data.

### 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 Group. In its communication with investors, the Parent goes above and beyond the statutory disclosure requirements, pursuing an open information policy in compliance with the principle of equal access

to information. As part of the consolidation process, communication with the capital market is conducted jointly for all issuers from the Group to present a coherent picture of the Group to investors.

Following the issue of periodic reports, the Group holds earnings conferences at which representatives of the Management Boards of the issuers from the Group present and discuss their financial performance. 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 Parent's website and on social networking sites.

Grupa Azoty representatives also meet with capital market participants during numerous one-on-one meetings and roadshows, and at investor conferences held both in Poland and abroad. Investors and analysts may attend site visits, organised on a regular basis by Grupa Azoty, at which they can visit production sites and meet with key managers responsible for operations of the Group's segments.

Keen to communicate with its retail investors, following the issue of each financial report the Group also holds open webchat sessions with Vice President of the Grupa Azoty Management Board in charge of finance and investor relations, where the shareholders are able to communicate directly and ask questions concerning the Group's performance and current condition.

Since its IPO, Grupa Azoty has held annual meetings with retail investors during the Wall Street conference and the affiliated '*Moje inwestycje*' fair, both organised by the Polish Association of Retail Investors ("SII"). In 2017, Grupa Azoty was a partner of the conference.

In 2017, the Group representatives again took part in Capital Market Games, a sports event for minority investors and representatives of financial market institutions, also organised by SII.

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.

A key tool for communicating with the capital market is the Parent's corporate website [www.grupaazoty.com](http://www.grupaazoty.com), featuring:

- Current and periodic reports,
- Presentations of periodic financial results and investor presentations,
- Multimedia files with recordings of earnings conferences and comments on financial performance in individual periods,
- Chat logs,
- Analyst recommendations,
- FAQ section, containing answers to the most frequently asked questions,
- Interactive calendar of corporate events,
- Strategy of the Grupa Azoty Group,
- Information on the corporate bodies.

Current information about the Group is also published in social media, such as Twitter, Youtube, and Facebook.

The content and presentation quality of Grupa Azoty's IR section, as well as the use of the Internet to communicate with investors, were recognised multiple times by the jury of the Golden Website Award for Listed Companies, organised by the Polish Association of Listed Companies, achieving a high rank in the competition. The website already received the Golden Website Award in the past, during its 7th and 8th edition.

Grupa Azoty's IR efforts were also recognised by financial market institutions, as confirmed by the awards received in 2017:

- In April: 'Transparent Company 2016' in the first edition of a ranking run by the *Parkiet* daily and the Institute of Accountancy and Taxes, with the support of the Warsaw Stock Exchange, covering the areas of financial reporting, investor relations and corporate governance. Grupa Azoty S.A. was among the 20 most transparent WIG20, WIG40 and WIG80 companies which agreed to have their transparency assessed;
- In June: an award for the highest standards of communication with retail investors maintained since the IPO on the Warsaw Stock Exchange - a special award from the Polish Association of Retail Investors in recognition of the Company's engagement in long-term dialogue with retail investors;
- 'Investor Friendly Company' Certificate as part of the '10 out of 10 - Communicate Effectively' programme run by the Polish Association of Retail Investors. Grupa Azoty has been a part of the project since its inception. The certificate is awarded to companies following the best possible communication practices, both in terms of form and frequency, as a confirmation that they meet and maintain high standards of investor relations;

- In October: an award in the 'most useful for shareholders and investors' category of The Best Annual Report 2016. The judging panel highly rated the standard of presentation of Grupa Azoty's strategy contained in the annual report, and its report on compliance with the 'Best Practice for WSE Listed Companies' was considered exemplary;
- In addition, Grupa Azoty S.A. has been a constituent of the RESPECT Index since its inception in 2009. Inclusion in the RESPECT Index depends, first and foremost, on demonstrating excellence in communication with the market through current and periodic reports and through websites, as well as socially responsible conduct vis-à-vis the environment, communities and employees.

## 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 2017 the Parent applied the 'Best Practice for WSE Listed Companies 2016', prepared by the Warsaw Stock Exchange. Following the adoption of the new text of the "Code of Best Practice for WSE Listed Companies 2016" by way of Resolution No. 26/1413/2015 of the supervisory board of the Warsaw Stock Exchange dated October 13th 2015, the Parent declares that it follows the recommendations and principles laid down in the new "Code of Best Practice" as published on the website of the Warsaw Stock Exchange at:

[http://static.gpw.pl/pub/files/PDF/RG/DPSN2016\\_\\_GPW.pdf](http://static.gpw.pl/pub/files/PDF/RG/DPSN2016__GPW.pdf)

to the extent described on the Parent's website:

[http://tarnow.grupaazoty.com/files/4fbe6653/gpw\\_dobre\\_praktyki\\_grupa\\_azoty\\_2016.pdf](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 the 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 subsequent versions of the 'Best Practice for WSE Listed Companies'.

As the new '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 venue of 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: 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. 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.

In 2017, the Company recorded an incidental breach of a detailed principle set out in section II.Z.3. of the Code of Best Practice for WSE Listed Companies 2016. II.Z.3. At least two members of the supervisory board should meet the independence criteria specified in principle II.Z.4.

The incidental breach of the principle resulted from removal of Marek Grzelaczyk from the Company's Supervisory Board on October 9th 2017, as notified by the State Treasury, a Company shareholder. Marek Grzelaczyk was one of two independent Supervisory Board members within the meaning of the 'Best Practice'. In consequence, the Company ceased to comply with the detailed principle II.Z.3. of the 'Best Practice for WSE Listed Companies 2016', under which at least two members of the Supervisory Board should meet the criteria of being independent referred to in principle II.Z.4. The Management Board has made a recommendation to the Company's competent bodies to take measures aimed at removing the breach.

On December 7th 2017, the Company's Extraordinary General Meeting appointed Michał Gabryel to the Company's Supervisory Board. On February 1st 2018, the Supervisory Board approved the statement of independence submitted by the new member of the Supervisory Board and confirmed that Michał Gabryel meets the independence criteria specified in principle II.Z.4. of the Code of Best Practice for WSE Listed Companies 2016.

Accordingly, the Company has ceased the breach of the detailed principle set out in section II.Z.3. of the Code of Best Practice for WSE Listed Companies 2016.

## Parent's report on compliance with recommendations of Best Practices in the reporting period

### I. Disclosure Policy, Investor Communications

#### I.R.1.

*Where a company becomes aware that untrue information is disseminated in the media, which significantly affects its evaluation, it should immediately publish on its website a communiqué containing its position on such information, unless in the opinion of the company the nature of such information and the circumstances of its publication give reasons to follow a more adequate solution.*

The Company declares to make every effort to prevent any damage that may be caused by disseminating untrue information about it. The Company seeks to ensure transparency by responding effectively to untrue information and limiting the negative effects of its dissemination. The Company takes care to provide its shareholders and the market with a true and accurate picture of the Group. Considering the above, the Group monitors the media, including newspapers, electronic media, and online resources.

#### I.R.2.

*Where a company pursues sponsorship, charity or other similar activities, it should publish information about the relevant policy in its annual activity report.*

The Company pursues transparent sponsorship, charity and other similar activities.  
For details, see section 8.14 of this report.

I.R.3.

*Companies should allow investors and analysts to ask questions and receive explanations - subject to prohibitions defined in the applicable legislation - on topics of their interest. This recommendation may be implemented through open meetings with investors and analysts or in other formats allowed by a company.*

The Company, pursuing an open information policy, provides all market participants, in particular current and prospective shareholders, with exhaustive and reliable information on events taking place at the Company and the Group.

For details, see section 7.3 of this report.

I.R.4.

*Companies should use best efforts, including taking all steps well in advance as necessary to prepare a periodic report, to allow investors to review their financial results as soon as possible after the end of a reporting period.*

The Company takes all necessary steps to prepare periodic reports well in advance. When planning the issue dates for periodic reports, the Company seeks to ensure that investors are able to review the Company's financial results as soon as possible.

## II. Management Board, Supervisory Board

II.R.1.

*To ensure the highest standards of the management board and the supervisory board of a company in efficient fulfilment of their obligations, the management board and the supervisory board should have members who represent high qualifications and experience.*

In 2017, the Management Board and Supervisory Board were composed of persons holding university degrees in law, economics, chemical engineering and technology, as well as environmental engineering.

Moreover, most of the Board members completed post-graduate programmes in corporate management, polymer chemistry and technology, management control, MBA, as well as specialist courses or trainings, including in power engineering, transport of hazardous materials, management, project management, disclosure requirements applicable to WSE-listed companies, brokerage courses, training in asset management strategy, risk management and corporate governance.

For information on members of the Management and Supervisory Boards and their CVs, see section 8.12 of this report.

II.R.2.

*Decisions to elect members of the management board or the supervisory board of a company should ensure that the composition of these bodies is comprehensive and diverse among others in terms of gender, education, age and professional experience.*

Pursuant to Art. 23.3 of the Company's Articles of Association, a member of the Management Board should have a university degree and at least five years of professional experience in a managerial position, except for a candidate for the position of the Management Board member elected by the Company's employees.

Given their vast competences and professional experience, including experience in serving on supervisory bodies of chemical or financial companies, members of the Management Board and Supervisory Board manage and supervise the Company's operations properly and to a sufficient degree.

For information on members of the Management and Supervisory Boards, their gender, education, and professional experience, see section 8.12 of this report.

II.R.3.

*Serving on the management board of a company should be the main area of the professional activity of management board members. Additional professional activities of management board members must not require such amounts of time and effort as would adversely affect the proper performance of the members' duties and responsibilities at the company. In particular, management board members should not serve in governing bodies of other entities if the time devoted to such service were to prevent the proper performance of their duties and responsibilities at the company.*

Some of the Company's Management Board members also hold positions in governing bodies of the subsidiaries, which facilitates successful and effective enforcement of decisions made by the Parent's Management Board at all Group companies with a view to maximising efficiency of the Group's operations.

In addition, holding positions in governing bodies of the subsidiaries by the Management Board members strengthens the Management Board's supervision of synergies and improves efficiency of the Group's processes.

**II.R.4.**

*Supervisory board members must be able to devote the time necessary to perform their duties.*

The Supervisory Board exercises ongoing supervision of the Company's operations in each area of its activity. Pursuant to Art. 37 of the Company's Articles of Association, the Supervisory Board meetings are held at least once every two months.

In the financial year 2017, the Supervisory Board held 46 meetings and 16 voting procedures using means of remote communication.

**II.R.5.**

*If a supervisory board member resigns or is unable to perform his or her duties, the company should immediately take steps necessary to ensure substitution or replacement on the supervisory board.*

If there is a threat that resignation or inability to perform his or her duties by a member of the Supervisory Board may result in a vacancy on the Board, the Company declares to take necessary steps to fill such vacancy. In the event of any temporary vacancy on the Supervisory Board, the Company will report such circumstance as a breach of the principle.

In the composition of the Supervisory Board there are members appointed by the Company employees, pursuant to Art. 14 of the Act on Commercialisation and Privatisation.

**II.R.6.**

*Being aware of the pending expiration of the term of office of management board members and their plans of further performance of duties on the management board, the supervisory board should take steps in advance to ensure efficient operation of the company's management board.*

The Company declares to apply this recommendation by ensuring continued operation of the Management Board, and by taking steps, sufficiently in advance, to ensure appropriate operation of the Company.

**II.R.7.**

*A company should allow its supervisory board to use professional and independent advisory services necessary for the supervisory board to exercise effective supervision in the company. In its selection of the advisory service provider, the supervisory board should take into account the financial condition of the company.*

Should the need arise, the Company declares to allow its Supervisory Board to use professional and independent advisory services necessary for the Board to exercise effective supervision. In its selection of the advisory service provider, the Supervisory Board should take into account the Company's financial condition and internal procedures.

### **III. Internal systems and functions**

**III.R.1.**

*The company's structure should include separate units responsible for the performance of tasks within its systems or functions, unless the separation of such units is not justified by the size or type of the company's activity.*

The Company's structure includes separate units responsible for the performance of tasks within its systems or functions.

The Company's Management Board is responsible for the implementation, maintenance, and efficiency of internal control, risk management, and compliance systems, as well as internal audit function as recommended by good practices. Persons responsible for the operation of organisational units which perform tasks related to the above systems and functions report directly to the President of the Management Board or to a designated Member of the Management Board. The Company has in place an audit committee.

The Company organisational chart is presented in section 2.1. of this report.

### **IV. General Meeting, Shareholder Relations**

**IV.R.1.**

*Companies should strive to hold an ordinary general meeting as soon as possible after the publication of an annual report and set the date in keeping with the applicable legislation.*

The Company convenes a General Meeting and sets its date not only in keeping with the applicable legislation, but also strives to hold it as soon as possible after issuing an annual report and closing of General Meetings of the subsidiaries. In 2017, the Company convened the Annual General Meeting for June 30th 2017.

#### 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 venue of the general meeting,*
- 3) exercise of the right to vote during a general meeting either in person or through a proxy.*

The Company does not apply the above recommendation. 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. 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.

#### IV.R.3.

*Where securities issued by a company are traded in different countries (or in different markets) and in different legal systems, the company should strive to ensure that corporate events related to the acquisition of rights by shareholders take place on the same dates in all the countries where such securities are traded.*

This recommendation does not apply to the Company. The Company shares are listed only on the main market of the Warsaw Stock Exchange.

### V. Conflict of Interest, Related Party Transactions

#### V.R.1.

*Members of the management board and the supervisory board should refrain from professional or other activities which might cause a conflict of interest or adversely affect their reputation as members of the governing bodies of the company, and where a conflict of interest arises, immediately disclose it.*

Members of the Management Board and the Supervisory Board declare that they refrain from professional or other activities which might cause a conflict of interest. Members of the Management Board and the Supervisory Board must notify the Management Board or the Supervisory Board, respectively, of any conflict of interest which has arisen or may arise, and should refrain from voting on a resolution on a matter which may give rise to such a conflict of interest. Any conflicts of interest are immediately and thoroughly investigated.

### VI. Remuneration

#### VI.R.1.

*The remuneration of members of the company's governing bodies and key managers should follow the approved remuneration policy.*

The remuneration of members of the Company's governing bodies and key managers follows the Company's remuneration policy.

For details on the Company's remuneration policy, see section 8.13 of this report.

#### VI.R.2.

*The remuneration policy should be closely tied to the company's strategy, its short- and long-term goals, long-term interests and results, taking into account solutions necessary to avoid discrimination on whatever grounds.*

The Company's remuneration policy is closely tied to the Company's strategy, its goals, interests, and results.

For details on the Company's remuneration policy, see section 8.13 of this report.

VI.R.3.

*If the supervisory board has a remuneration committee, principle II.Z.7 applies to its operations.*

On December 21st 2017, a Nomination and Remuneration Committee was appointed as a collective advisory body within the Supervisory Board.

Composition of the Nomination and Remuneration Committee is as follows:

- Bartłomiej Litwińczuk - Chair,
- Monika Fill - Member,
- Roman Romaniszyn - Member.

VI.R.4.

*The remuneration of members of the management board and the supervisory board and key managers should be sufficient to attract, retain and motivate persons with skills necessary for proper management and supervision of the company. Remuneration should be adequate to the scope of tasks delegated to individuals, taking into account additional duties, for instance on supervisory board committees.*

The remuneration of members of the Management Board, Supervisory Board and key managers is compliant with the remuneration rules adopted by the corporate bodies. At the same time, the remuneration is sufficient to attract, retain and motivate persons with skills necessary for proper management and supervision of the Company, and is adequate to the scope of tasks delegated to those individuals.

For details on the rules of remuneration of the Management Board and Supervisory Board members, see section 8.13 of this report.

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

Organisational solutions have been put in place at the Parent to ensure that risks involved in the preparation of financial statements are effectively and efficiently identified, managed, and eliminated. The solutions are based on internal regulations, organisational rules, workflow procedures, as well as the scopes of powers and responsibilities of the finance and accounting staff. The Company applies documented accounting policies, which relate in particular to the chart of accounts, measurement of assets and liabilities, calculation of net profit or loss, maintenance of the accounting books, rules to be followed in inventory taking, as well as data and database protection systems.

Accounting books are maintained using SAP, an integrated IT system interoperating with other complementary systems. All systems in place are protected against unauthorised access with periodically changed passwords and function-based access control. Source documents underlying accounting records are inspected by organisational units responsible for their review based on the division of duties and authority. Before any accounting entries are made, documents are subject to a final review performed by the accounting and tax personnel.

The Grupa Azoty Group takes care to ensure that its financial statements are prepared properly, that is in compliance with applicable regulations setting forth the reporting rules and procedures, and in accordance with the principles of fairness and completeness. Data sourced from the accounting records is based on entries made on the basis of appropriate source documents, which are verified through an inventory-taking of assets and review of transactions and balances in individual accounts by dedicated inventory-taking and review teams.

Preparation of the financial statements is overseen by Head of the Corporate Finance Department, who supervises the financial and accounting functions responsible for reviewing and recording economic events in the Company's accounting books and generating the data necessary to prepare the financial statements.

The accounting policies meet the requirements set forth in the International Financial Reporting Standards/International Accounting Standards and the Polish Accounting Act. The Company constantly monitors changes to the applicable financial reporting laws and regulations, and makes preparations sufficiently in advance to incorporate them into its rules and policies. Changes to accounting policies necessitated by amendments to accounting laws are made on an ongoing basis by the Company's Management Board.

Once prepared, the financial statements are presented by Head of the Corporate Finance Department to the Company's Management Board. In order to confirm that the data in the financial statements is correct and consistent with the records in the Company's accounting books, the financial statements



are audited by an independent auditor, who issues an opinion on the financial statements. The auditor is selected by the Supervisory Board based on a recommendation issued by the Audit Committee (a standing committee of the Supervisory Board). As part of its activities, the Audit Committee monitors the financial reporting process, the effectiveness of internal control and risk management systems in place at the Company, the full-year separate and consolidated financial statements, as well as the work performed and reports prepared by a qualified auditor.

Financial statements adopted by the Management Board are subject to assessment by the Supervisory Board, which submits a written evaluation report to the General Meeting of Grupa Azoty.

The adopted procedures for the preparation of financial statements are intended to ensure accuracy of disclosures and their compliance with the law, and to guarantee that potential risks are identified and eliminated sufficiently in advance in order to obtain a reasonable assurance concerning the accuracy and fairness of the financial statements.

Grupa Azoty S.A. has implemented the Enterprise Risk Management System based on the ISO 31000 "Risk management principles and guidelines" and COSO II "Enterprise Risk Management - Integrated Framework" standards. The "Group Enterprise Risk Management Policy" was adopted along with a range of procedures describing stages of the risk management process and detailed actions to take, which were also implemented by selected companies of the Group.

In accordance with the rules applicable at the Company, 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 Enterprise Risk Management process is carried out by the Group's Corporate Centre. A Steering Committee and Risk Experts Team were 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 Group companies at which the risk management system was implemented. The Risk Experts Team, consisting of enterprise risk owners, is an advisory body in handling key risks at Grupa Azoty.

The Company identifies and assesses the risks periodically, using the adopted risk model. Risk identification and assessment is performed by the respective risk owners. Results of periodical reviews of the risk register at individual companies are then used to prepare the Group's key risk list.

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

As a rule, once a year the Parent 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 Parent.

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. Management standards and systems**

### **Management standards**

The Group operates an Enterprise Management Policy. The policy defines the general plans and directions for Grupa Azoty. The 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 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 environmental protection, energy efficiency, health safety of food, reducing environmental losses, giving priority to customers, are all efficiently monitored and ensure effective management. In its operations, the Group complies with all applicable laws and regulations and strives to constantly improve the results of its operations, while minimising the associated risks.

### **Management systems**

The 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 9001:2015 standard,
- Environmental Management System compliant with the ISO 14001:2015 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),
- Management Standard compliant with the Fertilizers Europe Product Stewardship Standard,
- 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.
- Energy Management System compliant with the ISO 50001:2011 standard.

In the reporting period, the Group companies maintained and improved their management systems. The validity of certificates confirming the systems' compliance with relevant standards and requirements was maintained. Improvements were also made based on findings of external and internal audits of the certified management systems, and conclusions of the Management Review. The Group appointed a Management Systems Integration Team to integrate its management systems, continuously monitor changes of the standards, and take adaptive measures to ensure that the Group's management systems are ISO 9001:2015 and ISO 14001:2015 certification ready.

In the reporting period, Grupa Azoty S.A.'s quality management and environmental management systems were upgraded to comply with, respectively, the ISO 9001:2015 and the ISO 14001:2015 standards. Moreover, an energy management system compliant with the ISO 50001:2011 standard was implemented. Compliance of the management systems with the standards has been certified by independent certification bodies.

## 8.5. Shareholding structure

### Shareholding structure as at January 1st 2017

| Shareholder  | Number of shares  | Ownership interest (%) | Number of votes   | % of voting rights |
|--|-------------------|------------------------|-------------------|--------------------|
| State Treasury   | 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.<br>(indirectly: 19,321,700 shares,<br>i.e. 19.47%) | 71,348            | 0.07                   | 71,348            | 0.07               |
| Rainbee Holdings Limited <sup>*)</sup>                                     | 9,820,352         | 9.90                   | 9,820,352         | 9.90               |
| Opansa Enterprises Limited <sup>l)</sup>                                   | 9,430,000         | 9.50                   | 9,430,000         | 9.50               |
| TFI PZU S.A.   | 8,530,189         | 8.60                   | 8,530,189         | 8.60               |
| European Bank for Reconstruction<br>and Development                        | 5,700,000         | 5.75                   | 5,700,000         | 5.75               |
| Other  | 23,025,763        | 23.22                  | 23,025,763        | 23.22              |
| <b>Total</b>   | <b>99,195,484</b> | <b>100.00</b>          | <b>99,195,484</b> | <b>100.00</b>      |

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

On June 9th 2017, the Parent's Management Board received a notification from Norica Holding S.à r.l. of Luxembourg, concerning delivery by Subero, on June 6th 2017, of 100% of shares in Terasta Enterprises Ltd. of Nicosia, Cyprus, to Subero's shareholder as part of the company's liquidation. As the shares were disposed of in an intragroup transaction, Viatcheslav Kantor has remained the parent of Terasta, Redbrick Holding, Redbrick Investments, Acron, TrustService, Norica, Opansa and Rainbee and thus continues to indirectly hold 19,657,350 shares in the Parent, representing approximately 19.8168% of the Parent's total shares and 19,657,350 votes (i.e. 19.8168% of the total voting rights) at the Parent's General Meeting. The transaction did not lead to any changes in the shareholding structure of the Parent.

### Shareholding structure as at June 9th 2017

| Shareholder  | Number of shares  | Ownership interest (%) | Number of votes   | % of voting rights |
|--|-------------------|------------------------|-------------------|--------------------|
| State Treasury   | 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.<br>(indirectly: 19,321,700 shares,<br>i.e. 19.47%) | 71,348            | 0.07                   | 71,348            | 0.07               |
| Rainbee Holdings Limited <sup>*)</sup>                                     | 9,820,352         | 9.90                   | 9,820,352         | 9.90               |
| Opansa Enterprises Limited <sup>l)</sup>                                   | 9,430,000         | 9.50                   | 9,430,000         | 9.50               |
| TFI PZU S.A.   | 8,530,189         | 8.60                   | 8,530,189         | 8.60               |
| European Bank for Reconstruction<br>and Development                        | 5,700,000         | 5.75                   | 5,700,000         | 5.75               |
| Other  | 23,025,763        | 23.22                  | 23,025,763        | 23.22              |
| <b>Total</b>   | <b>99,195,484</b> | <b>100.00</b>          | <b>99,195,484</b> | <b>100.00</b>      |

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

On June 30th 2017, the Parent's Management Board received a notification from the European Bank for Reconstruction and Development of London, United Kingdom, (EBRD), to the effect that as a result of block trades involving 2,850,000 shares held by EBRD in the Company, executed on June 28th 2017 as part of an accelerated book building process, EBRD's equity interest in the Company decreased from 5,700 thousand to 2,850 thousand shares, i.e. from 5.75% to 2.87%, and its share in the total voting rights at the Parent's General Meeting from 5.75% to 2.87%.

### Shareholding structure as at June 30th 2017

| Shareholder  | Number of shares  | Ownership interest (%) | Number of votes   | % of voting rights |
|--|-------------------|------------------------|-------------------|--------------------|
| State Treasury   | 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.<br>(indirectly: 19,321,700 shares,<br>i.e. 19.47%) | 71,348            | 0.07                   | 71,348            | 0.07               |
| Rainbee Holdings Limited <sup>*)</sup>                                     | 9,820,352         | 9.90                   | 9,820,352         | 9.90               |
| Opansa Enterprises Limited <sup>l)</sup>                                   | 9,430,000         | 9.50                   | 9,430,000         | 9.50               |
| TFI PZU S.A.   | 8,530,189         | 8.60                   | 8,530,189         | 8.60               |
| European Bank for Reconstruction<br>and Development                        | 2,850,000         | 2.87                   | 2,850,000         | 2.87               |
| Other  | 25,875,763        | 26.10                  | 25,875,763        | 26.10              |
| <b>Total</b>   | <b>99,195,484</b> | <b>100.00</b>          | <b>99,195,484</b> | <b>100.00</b>      |

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

In the period from June 30th 2017 to the issue date of this report, the Parent was not notified of any changes in major holdings of its shares.

## 8.6. Special control powers of securities 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. 44.4 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. 44.8 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.

## 8.7. 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.

## 8.8. Restrictions on voting rights

In accordance with Art. 46.2 of the Parent's Articles of Association, one share carries one vote at the General Meeting, subject to Art. 46.3-7.

"Art. 46.3.: As long as the State Treasury of Poland or its subsidiaries hold shares in the Company representing at least one-fifth of total voting rights, the other shareholders' voting rights shall 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 Article 46.3, 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.”

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

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

## **8.10. 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 shall be 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.

In accordance with Art. 24 of the Parent’s Articles of Association, subject to Art. 25 et seq. thereof, members of the Management Board are appointed and removed by the Supervisory Board, following a recruitment process held to verify and evaluate the qualifications of candidates and to select the best candidate.

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).

Powers of the Supervisory Board also include determining the rules and amounts of remuneration of the Management Board members, suspension of individual or all Management Board members from duties for important reasons, and delegation of Supervisory Board members to temporarily perform the duties of members of the Management Board who are unable to perform their duties (Art. 32 of the Parent’s Articles of Association).

#### **Supervisory Board**

Pursuant to Art. 34.1 of the Parent’s Articles of Association, the Supervisory Board is composed of five to nine 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. 35 of the Articles of Association (“In the composition of the Supervisory Board there are members appointed by the Company employees, pursuant to Art. 14 of the Act on Commercialisation and Certain Employee Rights”).

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

A member of the Supervisory Board appointed by the General Meeting may be removed by the General Meeting at any time.

At least two members of the Supervisory Board are independent members that meet all of the independence criteria set out in Annex II to the Commission Recommendation on the role of non-executive or supervisory directors of listed companies and on the committees of the (supervisory) board (Art. 34.4 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.

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

Pursuant to Art. 10.1 of the Parent's Articles of Association and subject to Art. 10.3-5 thereof, the Parent's share capital may be increased by way of a resolution of the General Meeting by issuing new registered or bearer shares or by increasing the value of the existing shares. Pursuant to Art. 10.3-7 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 expires within six months from the date of registration of the amendments to the Articles of Association providing for 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 Business Register 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 Authorised Share Capital. A Management Board 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) disapplication of pre-emptive rights, shall require approval by the Supervisory Board.

## **8.11. 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.

Powers of the General Meeting are defined in Art. 50 of the Parent's Articles of Association and include, without limitation:

- Review and approval of the Directors' report on the Company's operations and the financial statements for the previous financial year; review and approval of the consolidated financial statements of the Group for the previous financial year and of the directors' report on the Group's operations if their preparation is required under the Accounting Act; granting discharge to members of the Company's governing bodies in respect of their duties,
- Adoption of resolutions on distribution of profit or coverage of loss,
- Setting the dividend record date and the dividend payment date, as well as a decision on payment of dividend in instalments,
- Appointment and removal of members of the Supervisory Board (subject to Art.16.2 and Art. 3.5 of the Articles of Association), and determining the remuneration amounts for members of the Supervisory Board,
- Approval of the disposal or lease of, or creation of limited property rights in, the Company's business or its organised part,

- Approval of the acquisition or disposal of real property, perpetual usufruct right or interest in real property, acquisition or disposal of non-current assets, acquisition or disposal of shares in another company, if the market value of the subject of the transaction exceeds PLN 100m or 5% of the Parent's total assets,
- Execution of loan, credit facility, surety or any other similar agreement by the Company with or for the benefit of a member of the Management Board, member of the Supervisory Board, proxy, or liquidator,
- Increase or reduction of the Parent's share capital,
- Issue of convertible bonds, bonds with pre-emptive rights and subscription warrants, buy-back of shares in the circumstances specified in Art. 362.1.2 of the Commercial Companies Code, squeeze-out carried out in compliance with Art. 418 of the Commercial Companies Code
- Creation, use and release of capital reserves, use of statutory reserve funds,
- Merger, demerger and transformation of the Parent,
- Amendments to the Articles of Association and change of the Parent's business objects,
- Decisions with respect to claims for redress of damage inflicted in the course of establishing the Company, its management or supervision,
- Dissolution and liquidation of the Parent,
- Review of the Supervisory Board's reports referred to in Art. 32.1.8, 32.1.19, 32.1.20, and 32.1.21,
- Determination of rules for disposal of non-current assets with a value exceeding 0.1% of the Parent's total assets,
- Determination of detailed recruitment rules and selection procedure for members of the Parent's Management Board,
- Determination of the rules of remuneration for members of the Parent's Management Board.

#### **Shareholder rights and their exercise**

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.

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

#### **Parent's Management Board**

Composition of the Management Board as at January 1st 2017:

- Wojciech Wardacki - President of the Management Board,
- Witold Szczypiński - Vice President of the Management Board,
- Tomasz Hinc - Vice President of the Management Board,
- Paweł Łapiński - Vice President of the Management Board,
- Józef Rojek - Vice President of the Management Board,
- Artur Kopeć - Member of the Management Board.

At the meeting held on June 20th 2017, the Parent's Supervisory Board resolved to appoint Grzegorz Kądziałowski as Vice President of the Parent's Management Board, with effect from the date of the resolution.

Tomasz Hinc, Vice President of the Management Board, resigned from the Company's Management Board, submitting a resignation letter to the Supervisory Board on March 4th 2018.

Therefore, as at the date of this report, the Company's Management Board was composed of:

- Wojciech Wardacki - President of the Management Board,
- Witold Szczypiński - Vice President of the Management Board,
- Paweł Łapiński - Vice President of the Management Board,
- Grzegorz Kądziałowski - Vice President of the Management Board,
- Józef Rojek - Vice President of the Management Board,
- Artur Kopeć - Member of the Management Board.

#### **Curriculum vitae of Management Board members**

##### ***Wojciech Wardacki - President of the Management Board***

Appointed President of the Company's Management Board on December 16th 2016.

Education:  
Doctor of Economics.

Professional experience:

|                               |  |
|-------------------------------|--|
| 1983 - 1995:                  | Assistant Lecturer and Assistant Professor in the Transport Economics Institute of Szczecin University (until August 31st 1985: Szczecin University of Technology) |
| 1989 - 1990:                  | Researcher, DAAD visiting fellow in the Transportation Institute of the University of Cologne, Germany   |
| 1991 - 1993:                  | Member of the Lower Chamber of the Polish Parliament   |
| 1994 - 1996:                  | Sole proprietorship, owner of Pracownia Analiz i Badań Marketingowych of Szczecin, a marketing research company  |
| 1995 - 1996:                  | Lecturer in the School of Public Administration in Szczecin  |
| 1996 - Apr 30th 2005:         | Head of Administration and Economic Affairs, Chief Financial Officer, and member of the management board of Goleniowskie Fabryki Mebli Kollektion WIM Sp. z o.o.   |
| May 4th 2005 - Oct 2nd 2005:  | Member of the management board for restructuring at Zakłady Chemiczne Zachem S.A.  |
| Oct 3rd 2005 - Aug 1st 2006:  | President of the management board and Chief Executive Officer of Zakłady Chemiczne Zachem S.A.   |
| Aug 2nd 2006 - Oct 31st 2008: | Member of the management board of Ciech S.A.   |
| 2010 - 2014:                  | Sole proprietorship, business consultancy and lobbying   |
| Since April 2016:             | President of the management board and Chief Executive Officer of Grupa Azoty Zakłady Chemiczne Police S.A.   |
| Since December 2016:          | President of the Management Board of Grupa Azoty S.A.  |

Other professional experience:

|                               |  |
|-------------------------------|--|
| 1997 - 1998:                  | Secretary to the Team of Advisors to President of the management board of Polskie Koleje Państwowe S.A. responsible for the assessment of restructuring programmes |
| 1998:                         | Chairman of the supervisory board of Polskie Koleje Państwowe S.A.   |
| 1999 - 2000:                  | Member of the supervisory board of Polskie Koleje Państwowe S.A.   |
| 2005 - 2008:                  | Chairman and member of the supervisory board of Transclean Sp. z o.o.  |
| 2006 - 2008:                  | Chairman of the supervisory board of Janikosoda S.A.   |
| 2006 - 2008:                  | Deputy Chairman of the supervisory board of Soda Mątwy S.A.  |
| 2006 - 2008:                  | Member of the supervisory board of Gdańskie Zakłady Nawozów Fosforowych sp. z o.o.   |
| 2007 - 2008:                  | Chairman of the supervisory board of Zakłady Chemiczne Zachem S.A.   |
| Since February 15th 2016:     | Chairman of the supervisory board of Bank Ochrony Środowiska S.A.  |
| Mar 1st 2016 - Mar 30th 2016: | Member of the supervisory board of Grupa Azoty Zakłady Chemiczne Police S.A.   |
| Since February 3rd 2017:      | Chairman of the Council of the Polish Chamber of Chemical Industry   |

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

Appointed Vice President of the Management Board on January 9th 2015 and Director General of Grupa Azoty S.A. as of March 2014.

Previously: Vice President of the Company's Management Board of the ninth term of office under the Supervisory Board's resolution of October 20th 2011, Vice President of the Company's Management Board of the eighth term of office under the Supervisory Board's resolution of March 18th 2011, Vice President of the Company's Management Board of the seventh term of office under the Supervisory Board's resolution of June 11th 2008, Vice President of the Company's Management Board of the sixth term of office under the Supervisory Board's resolution of March 11th 2008.

Education:

Graduate of the Production Organisation Faculty of the Silesian University of Technology. Completed studies in industry organisation and management (specialisation: chemical industry), MSc (Eng) in industry organisation.



#### Training and courses:

Training and courses focused on managerial skills and functioning of companies under the Commercial Companies Code.

Specialist training courses in process safety, workplace safety, economic project analysis, energy efficiency analysis, legal aspects of the chemical industry, and organisation of research processes.

#### Main training courses:

- Training course for candidates for members to supervisory boards (Instytut Prawa Spółek i Inwestycji Zagranicznych Sp. z o.o.),
- Training course for management staff based on the course for candidates to supervisory boards (Rzeszów School of Management),
- 'BEST MANAGER' series of seminars preparing managers for ownership transformations (Staff Development Centre at the HR and Training Department of the Ministry of Industry).

#### Professional experience:

|             |  |
|-------------|--|
| 1979 - 1987 | Foreman, Process Engineer and Senior Process Engineer at the Synthesis Plant of Zakłady Azotowe im. F. Dzierżyńskiego w Tarnowie (later renamed Zakłady Azotowe w Tarnowie-Mościcach S.A.) |
| 1987 - 1990 | Manager of Silicon Department at the Synthesis Plant of Zakłady Azotowe w Tarnowie-Mościcach S.A.  |
| 1991 - 1999 | Manager of the Synthesis Plant of Zakłady Azotowe w Tarnowie-Mościcach S.A.  |
| 1999 - 2001 | Director of Plastics Centre of Zakłady Azotowe w Tarnowie-Mościcach S.A.   |
| 2002 - 2007 | Director responsible for Technology and Development at Zakłady Azotowe w Tarnowie-Mościcach S.A.   |
| 2007 - 2008 | Member of the management board of Zakłady Azotowe w Tarnowie-Mościcach S.A.  |
| 2008        | Acting President of the management board of Zakłady Azotowe w Tarnowie-Mościcach S.A.  |
| Since 2008: | Vice President of the management board of Zakłady Azotowe w Tarnowie-Mościcach S.A. (at present Grupa Azoty S.A.)  |

Representative of Zakłady Azotowe w Tarnowie-Mościcach S.A. (currently Grupa Azoty S.A.) on the supervisory boards of Przedsiębiorstwo Innowacyjno-Wdrożeniowe UNISIL Sp. z o.o. (1997-1999), Tarnowskie Wodociągi Sp. z o.o. (2007-2008), Biuro Projektów Zakładów Azotowych BIPROZAT Sp. z o.o. and subsequently Grupa Azoty PKCh Sp. z o.o. (2008-2016), Grupa Azoty ATT Polymers GmbH (2011-2013 and since 2015), Grupa Azoty ZAK S.A. (2012-2016), and Grupa Azoty Siarkopol S.A. (2013-2016).

#### Additional information:

- Member of the Scientific Board of the Ignacy Mościcki Industrial Chemistry Research Institute (since 2017),
- Member of the Chemical and Process Engineering Committee of the Polish Academy of Sciences (2011-2015),
- Member of the Steering Committee of the 'Advanced power generation technologies', a strategic scientific research and development programme of the National Centre for Research and Development (2012-2015),
- Member of the Scientific Board of the Blachownia Institute of Heavy Organic Synthesis of Kędzierzyn-Koźle (2011-2015),
- Chairman of the management board of SITPChem Branch of Tarnów (2007-2010),
- Author and co-author of nearly 40 implemented specialist improvement concepts (including six patent protected) for the manufacturing of ammonia, hydrogen, food-grade carbon dioxide, polyoxymethylene, polycrystalline silicon and catalysts; and for energy infrastructure.

#### **Paweł Łapiński – Vice President of the Management Board**

Appointed Vice President of the Company's Management Board on May 20th 2016.

#### Education:

- Graduate of the Management and Marketing Department of the Faculty of Economic Sciences and Management of the Nicolaus Copernicus University in Toruń (major in manufacturing process management and industrial enterprise management).
- Completed a post-graduate course in commercial law at the Nicolaus Copernicus University in Toruń.
- Completed a post-graduate course in value based management at the Warsaw School of Economics.
- Completed a post-graduate course in business psychology and negotiation at the Warsaw School of Economics.

**Training and courses:**

Various courses in management, finance, taxes, cost analysis and subjects related to the power industry.

**Professional experience:**

- |             |   |
|-------------|---|
| 1997 - 2007 | Boryszew S.A. Elana Branch in Toruń (last position held: Deputy Managing Director, Economic Director)                   |
| 2005 - 2007 | Elana-Energetyka Sp. z o.o. (last position held: Vice President of the management board, Economic and Finance Director) |
| 2007 - 2016 | Struga S.A. (President of the management board)   |

**In addition:**

- |             |   |
|-------------|---|
| 2006 - 2007 | Chairman of the supervisory board of ELANA-PET Sp. z o.o. |
| 2008 - 2013 | Chairman of the supervisory board of BUMAR-HYDROMA S.A.   |
| 2013 - 2016 | Chairman of the supervisory board of VEROBUD S.A.         |

**Grzegorz Kądziałowski - Vice President of the Management Board**

Appointed Vice President of the Company's Management Board on June 20th 2017.

**Education:**

- |              |  |
|--------------|--|
| 2011 - 2017: | Andrzej Frycz Modrzewski Krakow University, doctoral student at the Faculty of Law, Administration and International Relations, majoring in law; title of degree: PhD in law (graduation with honours) |
| 2011 - 2012: | Diplomatic Academy of the Polish Institute of International Affairs, Foreign Policy Studies  |
| 2007 - 2010: | Jagiellonian University, Faculty of Law and Administration, field of study: Administration (master's programme)  |
| 2004 - 2007: | State Higher Vocational School in Tarnów, Institute of Administration and Economics, major: Public Administration (bachelor's programme)   |
| 2000 - 2004: | Kazimierz Brodziński General Secondary School in Tarnów  |

**Professional experience:**

- |                   |   |
|-------------------|---|
| Since Jun 2017    | Vice President of the Management Board of Grupa Azoty S.A. responsible for R&D and Infrastructure   |
| Since May 2017    | Expert of ECVET (European Credit System for Vocational Education and Training) at the Foundation for the Development of the Education System                      |
| Since Jun 2016    | Member, Chairman (from November 2016 to July 2017) and Deputy Chairman (from July 2017) of the supervisory board of Zakłady Górniczo-Metalowe ZĘBIEC w Zębcu S.A. |
| Since Nov 2015    | Head of Office of the Deputy Prime Minister, Minister of Science and Higher Education   |
| Nov 2015-Feb 2016 | Workshop programme coordinator at the Faculty of Administration and Social Sciences, Warsaw University of Technology  |
| Jun 2015-Mar 2017 | Member of the Programme Board at Polskie Radio w Warszawie RDC S.A.   |
| Aug 2014-Nov 2015 | Head of Office of the Parliamentary Group Sprawiedliwa Polska/Zjednoczona Prawica at the lower chamber of the Polish parliament                                   |
| Since Oct 2013    | Lecturer at Łazarski University, Faculty of Law and Administration, Department of Administrative Law  |
| 2013              | Expert at the media production company Prasa i Film   |
| Oct 2011-Oct 2014 | Lecturer at the State Higher Vocational School in Tarnów, Institute of Administration and Economics   |

Nov 2007-Jun 2014      Head of an MP's office

***Józef Rojek - Vice President of the Management Board***

Appointed Vice President of the Company's Management Board on May 20th 2016.

**Education:**

- Post-secondary course in I&C and automation in the chemical industry (5 semesters),
- Kraków University of Technology – Faculty of Mechanical Engineering, major: construction of equipment used in chemical and food industries (10 semesters),
- Małopolska School of Economics in Tarnów, specialisation: management and marketing.

**Professional experience:**

- |             |   |
|-------------|---|
| 1968 - 1969 | Gminna Spółdzielnia Samopomoc Chłopska of Ropczyce (farmers communal cooperative)   |
| 1972 - 1985 | Zakłady Azotowe w Tarnowie  |
| 1985        | Wojewódzki Związek Spółdzielni Rolniczych (association of agricultural cooperatives)  |
| 1985 - 1986 | Management board of Spółdzielnia Transportu Wiejskiego (rural transport cooperative)  |
| 1986 - 1987 | Spółdzielnia Transportu Wiejskiego in Dąbrowa Tarnowska   |
| 1987 - 1994 | Zakłady Azotowe w Tarnowie  |
| 1994 - 1998 | Chief Designer at Biuro Projektów Zakładów Azotowych Biprozat Tarnów Sp. z o.o.   |
| 1994 - 2005 | Member of the Tarnów City Council   |
| 1998 - 2002 | Mayor of Tarnów   |
| 2002 - 2005 | Chief Specialist at Biuro Projektów Zakładów Azotowych Biprozat Tarnów Sp. z o.o.   |
| 2003 - 2004 | Member of the supervisory board of Biuro Projektów Zakładów Azotowych Biprozat Tarnów Sp. z o.o.  |
| 2005 - 2006 | Member of the Sejm (lower chamber of the Polish Parliament) – member of the State Treasury Committee and the Environmental Protection, Natural Resources and Forestry Committee   |
| 2006 - 2007 | Adviser to Director General of Zakłady Azotowe w Tarnowie-Mościcach S.A.  |
| 2006 - 2007 | Member of the supervisory board of Przedsiębiorstwo Uzdrowiskowe Ustroń S.A. of Ustroń  |
| 2006 - 2007 | Member of the Social Council at Mościckie Centrum Medyczne Samodzielny SPZOZ (public medical centre in Mościce)   |
| 2007 - 2015 | Member of the Sejm (2007–2015: member of the State Treasury Committee, 2008–2009: member of the Justice and Human Rights Committee, 2009–2011: member of the Physical Culture, Sports and Tourism Committee, 2015: member of the Petitions Committee) |

***Artur Kopeć - Member of the Management Board***

Appointed Member of the Company's Management Board nominated by Grupa Azoty S.A. employees on February 26th 2015.

Prior to the appointment: Member of the Company's Management Board of the ninth term of office nominated by Grupa Azoty S.A. employees under the Supervisory Board's resolution of February 17th 2012.

**Education:**

- Graduate of the Chemical Technology Faculty of Wrocław University of Technology (2002),
- Completed postgraduate course in entrepreneurship at Cracow University of Economics,
- Completed managerial course organised by Rudzka Agencja Rozwoju and Training Partners.

**Training and courses:**

Completed a number of training courses in management, health and safety, ISO and environmental protection.

In 2010 completed a course for members of supervisory boards of state-owned companies.

**Professional experience:**

- 2003 – employment with the State Higher Vocational School in Tarnów,
- Since October 1st 2003 employed by Zakłady Azotowe w Tarnowie-Mościcach S.A. (now Grupa Azoty S.A.) in the following positions:

- technician at the Department of Ammonia (2003–2005),
- shift master at the Department of Catalysts (August–November 2005),
- ammonia synthesis technician at the Fertilizers Centre (2006–2009),
- fertilizer specialist technologist and engineer supervising the construction of Mechanical Fertilizer Granulation Unit (2006–2009),
- testing and commissioning manager at the Mechanical Fertilizer Granulation Unit (2008–2009),
- ammonia and hydrogen management specialist at the Ammonia Department (2010–2011),
- since 2011 – head of the Ammonia Department and commissioning manager at the hydrogen production unit,
- since February 2012 – Member of the Management Board of Grupa Azoty S.A.

**Additional information:**

- Since 2006 - member of the Polish Association of Chemical Engineers,
- In 2013–2014 - deputy chairman of the supervisory board of ŻSSA Unia Tarnów,
- Major professional accomplishments included successful launch of production of Saletrosan, a new fertilizer. Co-authored of the “Process of preparation of ammonium nitrate-sulfate” invention filed in European and Polish patent applications, and a number of improvement concepts.
- Major accomplishments on the Management Board include:
  - contribution to work on consolidation of the Polish chemical industry,
  - negotiation of social packages at the Puławy and Grzybowo plants,
  - integration of occupational health and safety, environmental protection and fire protection functions,
  - establishment of the Fire Protection Team (ZOP),
  - establishment of the Grupa Azoty Rescue Education Centre (CERGA),
  - significant reduction of the accident rate at the Group,
  - implementation of DuPont’s STOP™ programme.

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

On June 22nd 2017, the Company’s Management Board passed a resolution establishing the following division of responsibilities between the Management Board members:

- Wojciech Wardacki – President of the Management Board, responsible for overall supervision and management of the Group, as well as for the strategy and corporate governance, including exercise of majority shareholder power, human resources management, communication and corporate image (which also covers public relations and CSR),
- Witold Szczypiński - Vice President of the Management Board, Director General of the Parent, responsible for integration of production processes, the Agro Segment, and the Plastics Segment,
- Tomasz Hinc - Vice President of the Management Board, responsible for procurement and logistics,
- Grzegorz Kądziałowski - Vice President the Management Board, responsible for infrastructure and R&D programmes,
- Paweł Łapiński - Vice President of the Management Board, responsible for finance, controlling, IT and investor relations,
- Józef Rojek - Vice President of the Management Board, responsible for investment projects,
- Artur Kopeć - Member of the Management Board, responsible for production assets, plant safety, environmental protection, and social dialogue.

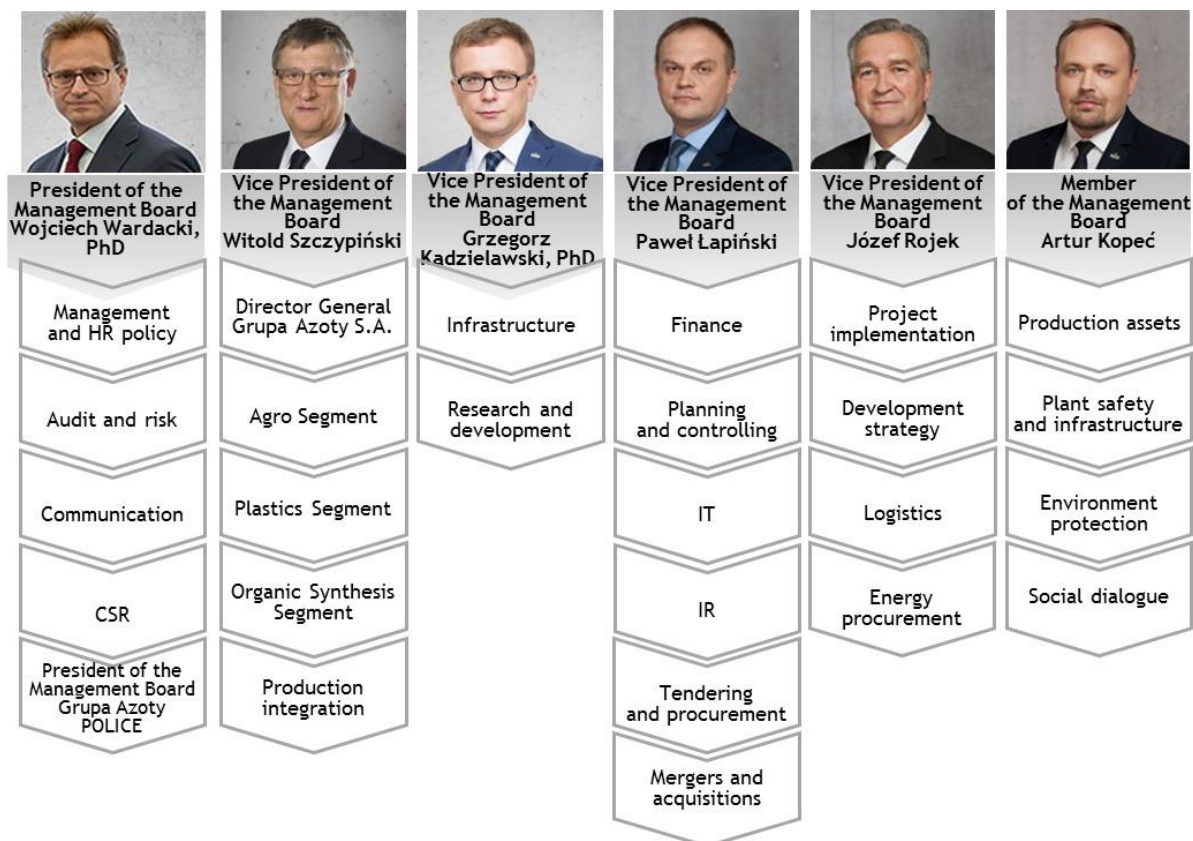
### Division of responsibilities between the Management Board members as at December 31st 2017



Source: Company data.

On March 7th 2018, following Tomasz Hinc's resignation from his position on the Parent's Management Board, the Management Board passed a resolution establishing a new division of responsibilities between the Management Board members. The chart below shows the updated division of responsibilities as at March 7th 2018.

### Division of responsibilities between the Management Board members as at March 7th 2018



Source: Company data.

### The Supervisory Board

As at January 1st 2017, the Parent's Supervisory Board was composed of:

- Marek Grzelaczyk - Chairman,
- Tomasz Karusewicz - Deputy Chairman,
- Zbigniew Paprocki - Secretary,
- Monika Fill - Member,
- Robert Kapka - Member,
- Artur Kucharski - Member,
- Bartłomiej Litwińczuk - Member,
- Ireneusz Purgacz - Member,
- Roman Romaniszyn - Member.

On July 28th 2017, the Company's Annual General Meeting passed resolutions removing Artur Kucharski from the Supervisory Board and appointing Piotr Czajkowski to the Supervisory Board of the tenth term of office, with effect from the date of the respective resolutions.

As at July 28th 2017, the Parent's Supervisory Board consisted of:

- Marek Grzelaczyk - Chairman,
- Tomasz Karusewicz - Deputy Chairman,
- Zbigniew Paprocki - Secretary,
- Piotr Czajkowski - Member,
- Monika Fill - Member,
- Robert Kapka - Member,
- Bartłomiej Litwińczuk - Member,
- Ireneusz Purgacz - Member,
- Roman Romaniszyn - Member.

On October 9th 2017, Mr Marek Grzelaczyk was removed from the Supervisory Board of Grupa Azoty S.A. based on a letter from the Minister of Development and Finance.

As at October 9th 2017, the Parent's Supervisory Board consisted of:

- Tomasz Karusewicz - Deputy Chairman,
- Zbigniew Paprocki - Secretary,
- Piotr Czajkowski - Member,
- Monika Fill - Member,
- Robert Kapka - Member,
- Bartłomiej Litwińczuk - Member,
- Ireneusz Purgacz - Member,
- Roman Romaniszyn - Member.

On December 7th 2017, on the basis of a statement by a representative of the State Treasury (as a shareholder), Mr Michał Gabryel was appointed to the Supervisory Board. On the same day, the Extraordinary General Meeting of the Parent passed a resolution to appoint Mr Tomasz Karusewicz as Chairman of the Supervisory Board of the tenth term of office.

As a result of these changes, from December 7th 2017 to the date of this report, the composition of the Supervisory Board was as follows:

- Tomasz Karusewicz - Chairman,
- Michał Gabryel - Deputy Chairman,
- Zbigniew Paprocki - Secretary,
- Piotr Czajkowski - Member,
- Monika Fill - Member,
- Robert Kapka - Member,
- Bartłomiej Litwińczuk - Member,
- Ireneusz Purgacz - Member,
- Roman Romaniszyn - Member.

The Supervisory Board operates on the basis of:

- Commercial Companies Code of September 15th 2000 (Dz.U. No. 94, item 1037, as amended),

- Act of August 30th 1996 on Commercialisation and Certain Employee Rights,
- Accounting Act of September 29th 1994,
- Company's Articles of Association,
- Rules of Procedure for the Company's Supervisory Board.

***Tomasz Karusewicz - Chairman of the Supervisory Board***

Economist, graduated in business management from Szczecin University. Mr Karusewicz is a qualified comptroller, certified by the Ministry of Finance. He is also qualified to serve on supervisory boards of the state-owned companies. Completed a number of internal audit and control courses and training programmes.

In 2003-2005, Mr Karusewicz worked at the Internal Control Department of the Szczecin City Hall, and also served as comptroller. Then he was an expert at Nafta Polska S.A. In 2006- 2008, he was with the Ciech Group S.A., first as deputy director at the owner supervision office of Ciech S.A. and member of the supervisory boards of Zakłady Chemiczne Alwernia S.A. and Ciech Polfa Sp. z o.o. (both Ciech Group companies). Then he moved on to serve as member of the supervisory board of Ciech S.A. In 2007-2009, he worked as deputy director at the Business Development Office and the Foreign Investments Office of PZU S.A. Afterwards, he was connected with Telewizja Polska S.A., Poland's public television broadcaster, from 2010 to 2012 as director of the Internal Audit and Control Office. Also served on supervisory boards of Enea S.A. of Poznań (2007-2008), IKS „Solino” S.A. of Inowrocław and Zakład Wodociągów i Kanalizacji Sp. z o.o. of Szczecin (2015).

In 2006, he served as Chairman of the Supervisory Board of Zakłady Azotowe w Tarnowie-Mościcach S.A. Currently, he is again with a PZU Group company, as member of the management board of PZU Życie S.A.

***Michał Gabryel - Deputy Chairman of the Supervisory Board***

Graduated from the University of Wrocław, with M.Sc. in theoretical physics. He took a number of courses in management and control of local government units. In 1998, he completed the course for candidates to supervisory boards of state-owned companies.

In 1976-1981 he worked for the Wrocław University of Technology, then in 1982-1992 he was director at Zakład Usług Wysokościowych Tatarnik, and in 1988-1993 he managed companies and a cooperative operating in the IT sector.

From 1991, he was president of WAZA Spółka z o.o., where he developed proprietary software for public administration and healthcare sector.

In 1998-2002, he was Chairman of the Audit Committee of the City of Wrocław.

In 1998-1999 he was a member of the supervisory board of WZG S.A. and in 2016-2017 a member, deputy chairman, and then chairman of the supervisory board of PAIH S.A.

***Zbigniew Paprocki - Secretary of the Supervisory Board***

Mr Paprocki graduated from the Academy of Agriculture in Kraków with a master's degree in environmental engineering. He completed a post-graduate MBA programme at the Faculty of Mechanical Engineering at the Institute of Business Studies, and a course for members of supervisory boards of state-owned companies. He has worked for Grupa Azoty S.A. (formerly Zakłady Azotowe w Tarnowie-Mościcach S.A.) for over 20 years. First as Shift Foreman, then as Deputy Head of the Power Engineering Department, Deputy Chief Production Coordination Engineer, and from 2012 as Head of the Production Management and Coordination Office at the Corporate Production Coordination and Safety Department. Since 2010, he has worked as Chairman of the Association of Chemical Industry Engineers and Technicians, Tarnów Branch, and member of its Executive Board.

On the Supervisory Board of Grupa Azoty S.A. Mr Paprocki served from November 2010 to April 2013, and since June 2013 (elected by the employees). He was also deputy chairman of the supervisory board of ELZAT Sp. z o.o. and chairman of the supervisory board of PROREM Sp. z o.o.

***Piotr Czajkowski - Member of the Supervisory Board***

Mr Czajkowski holds a master's degree in management and marketing from the Faculty of Technology and Automation Engineering of the Warsaw University of Technology. He also completed a post-graduate course in organisation and management at the Military University of Technology. He has completed a number of training programmes in the operation and assessment of economic and financial condition of companies, preventive role of supervisory boards, management control and internal audit. Currently, he is a postgraduate student at the Faculty of Economics of the University of Warsaw in the field of innovative economy and the role of economic policy.

He is qualified to sit on the supervisory boards of state-owned companies and has more than ten years of experience working on the supervisory bodies of corporations where he was chairman, deputy

chairman and member, including (in the last ten years): Warszawskie Zakłady Mechaniczne PZL-WZM w Warszawie S.A., Huta Stalowa Wola S.A., Przedsiębiorstwo Komunikacji Samochodowej w Ostrowie Wielkopolski Sp. z o.o., Zakłady Przemysłu Precyzyjnego NIEWIADÓW S.A., Zakłady Mechaniczne PZL-Wola S.A., INTRACO S.A. and Zakłady Tekstylno-Konfekcyjne TEOFILÓW S.A.

In 2000-2017, he worked for the Ministry of State Treasury, holding positions of a senior specialist, chief specialist, and head of unit, where he exercised owner supervision of state-owned companies, and was responsible for restructuring and consolidation of defence companies. At present, Mr Czajkowski is head of unit at the State Treasury Department of the Chancellery of the Prime Minister, with responsibility for performance of tasks related to the exercise of owner supervision of state-owned companies and the Prime Minister's coordination of the State Treasury's exercise of rights attached to shares held by the State Treasury in companies of key importance to Polish economy.

***Monika Fill - Member of the Supervisory Board***

In 1996, Ms Fill graduated from the Institute of English Studies at the Jagiellonian University in Kraków. In 1996-1998, she studied in London, where she obtained a master's degree in Modern European Studies at the University of North London. Having returned to Poland, she started working in finance. In 1999-2006, she worked with Prudential, a US company, PZU S.A., and Golden Egg Niezależni Doradcy Finansowi, holding managerial positions in marketing and sales, with a large portfolio of successful sales and advertising campaigns. In 2004, she completed sociology studies at the Institute of Applied Social Sciences of the University of Warsaw, and in 2008 - a post-graduate course in insurance at the Academy of Finance in Warsaw.

From 2006 to 2010 she was a member of the supervisory board and then vice president and president of the management board of Poczta Towarzystwo Ubezpieczeń Wzajemnych (a mutual insurance company). In 2015-2016, she held a managerial position at the Warsaw Stock Exchange, and was also president of the management board of the Warsaw Stock Exchange Foundation.

She is authorised by the Ministry of State Treasury to serve on supervisory boards of state-owned companies. Since 2012, Ms Fill has run her own consulting company.

***Robert Kapka - Member of the Supervisory Board***

On the Supervisory Board of Grupa Azoty S.A. since June 2013. Member of the Supervisory Board elected by the employees.

Graduate of the Cracow University of Technology, Faculty of Chemical Engineering and Technology, principal field of study: light chemical technology, master of science. He also completed a post-graduate course in Polymer Chemistry and Technology at the Rzeszów University of Technology. In 2013, he passed the exam for candidates to supervisory boards of state-owned companies.

Mr Kapka has been employed at Grupa Azoty S.A. (formerly Zakłady Azotowe w Tarnowie-Mościcach S.A.) since 1999, at the following positions: Process Engineer, Manager of comprehensive tests and commissioning of the Polyamide Plant, Head of Caprolactam Polymerisation Division, Head of Production at the Plastics Centre, and Head of Production at the Plastics Production Unit, Plastics Business Segment. From December 2014, Head of Plastics Production Unit in Tarnów, Plastics Business Segment. From July 2016 to March 17th 2017, Chairman of the Supervisory Board of Grupa Azoty ATT Polymers GmbH.

***Bartłomiej Litwińczuk - Member of the Supervisory Board***

Mr Litwińczuk is a graduate of the University of Warsaw, Faculty of Law and Administration (master's degree, commercial public law). In 2009, he completed legal training as an attorney-at-law at the regional bar association in Warsaw, and passed the bar examination. In May 2010, he was entered in the register of attorneys-at-law. Mr Litwińczuk owned a law firm. In his legal practice, he specialised in the protection of personal rights, commercial companies law, criminal law, penal fiscal law, civil law, and administrative law. Provided legal services to businesses, also in the field of corporate governance. Since February 1st 2016, he has served as Member of the Supervisory Board of Grupa Azoty S.A.

***Ireneusz Purgacz - Member of the Supervisory Board***

Mr Purgacz is a graduate of the Law and Administration Faculty at the University of Warsaw. He completed legal training for court judges in the Ciechanów Provincial Court, and legal training as an attorney-at-law at the Regional Bar Association in Płock.

He worked as an assistant judge in the Ciechanów Provincial Court, and then practiced law at Zespół Adwokacki Nr 1 in Ciechanów. Since January 1995 to date, Mr Purgacz has run his own law firm in Ciechanów. As part of his practice as attorney-at-law, he offers legal services to individuals and



businesses, in civil, commercial, administrative and criminal law. From 2009 to 2011, he served on the supervisory board of Przedsiębiorstwo Wodociągów i Kanalizacji Sp. z o.o. in Wyszaków.

***Roman Romaniszyn - Member of the Supervisory Board***

Graduate of the Faculty of Electrical Engineering, Automatics and Electronics, majoring in power generation, at the AGH University of Science and Technology of Kraków. He completed also a post-graduate course in energy audit at the AGH University of Science and Technology of Kraków. In 2015, he passed the exam for candidates to supervisory boards of state-owned companies. Member of the Supervisory Board elected by the employees.

In 1996, he joined Grupa Azoty S.A., where he held the positions of process engineer at the Electrical Engineering Department, deputy manager, and from 2003 - manager, of the Power Supply and Security Division at the Power Centre. Member of the management board of the Association of Polish Electrical Engineers, Branch No. 3 in Tarnów, member of the Polish Association of Chemical Engineers, Tarnów Branch.

**Audit Committee**

To streamline its work and improve control of the Parent and the Group, on July 4th 2013 the Supervisory Board passed a resolution to appoint an Audit Committee.

Composition of the Audit Committee as at January 1st 2017:

- Artur Kucharski - Chair,
- Monika Fill,
- Robert Kapka,
- Ireneusz Purgacz.

Following the removal of Artur Kucharski from the Supervisory Board on July 28th 2017, on August 4th 2017 the Supervisory Board resolved to appoint Monika Fill as Chairperson of the Audit Committee and to appoint Marek Grzelaczyk and Tomasz Karusewicz as Members of the Committee.

As at August 4th 2017, the composition of the Company's Audit Committee was as follows:

- Monika Fill - Chair,
- Marek Grzelaczyk,
- Robert Kapka,
- Tomasz Karusewicz,
- Ireneusz Purgacz.

On August 31st 2017, in connection with the loss of the status of an independent member of the Supervisory Board, Ms Monika Fill tendered her resignation as President of the Audit Committee and member of the Audit Committee.

Following Ms Fill's resignation, the Supervisory Board appointed Mr Ireneusz Purgacz as President of the Audit Committee.

As at the August 31st 2017, the composition of the Audit Committee was as follows:

- Ireneusz Purgacz - Chair,
- Marek Grzelaczyk,
- Robert Kapka,
- Tomasz Karusewicz.

On October 9th 2017, in connection with the removal of Mr Marek Grzelaczyk from the Supervisory Board, the composition of the Audit Committee changed.

As at the October 9th 2017, the composition of the Audit Committee was as follows:

- Ireneusz Purgacz - Chair,
- Robert Kapka,
- Tomasz Karusewicz.

On October 26th 2017, in connection with Mr Robert Kapka's resignation from membership of the Audit Committee, the Supervisory Board appointed Mr Piotr Czajkowski to the Committee.

As at the October 26th 2017, the composition of the Audit Committee was as follows:

- Ireneusz Purgacz - Chair,
- Piotr Czajkowski,
- Tomasz Karusewicz.

On December 21st 2017, Mr Michał Gabryel was appointed to the Audit Committee by a resolution of the Supervisory Board.

As at the date of this report, the Company's Audit Committee consisted of:

- Ireneusz Purgacz - Chair,
- Piotr Czajkowski,
- Michał Gabryel,
- Tomasz Karusewicz.

#### **Responsibilities of the Audit Committee**

The Audit Committee operates pursuant to the Rules of Procedure for the Audit Committee, adopted by the Supervisory Board by way of a resolution of July 4th 2013. The main tasks of the Committee include:

- Monitoring of the financial reporting process,
- Monitoring of the effectiveness of the Company's internal control, internal audit and risk management 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 full-year separate and consolidated financial statements,
- Monitoring of the work and reports of the independent auditor,
- Analysing selected economic events relevant to the Company's operations.

#### **Events after the reporting period**

On February 1st 2018, the Supervisory Board resolved to establish a Strategy and Development Committee composed of:

- Robert Kapka - Chair,
- Tomasz Karusewicz - Member,
- Zbigniew Paprocki - Member.

and a Nomination and Remuneration Committee composed of:

- Bartłomiej Litwińczuk - Chair,
- Monika Fill - Member,
- Roman Romaniszyn - Member.

### **8.13. Diversity policy**

The Group has no formalised diversity policy. However, in its operations it follows clear rules of employment and promotion. It also seeks to achieve diversity in terms of gender, education, age and professional experience of its entire workforce, including in particular members of the governing bodies and key management personnel.

*In accordance with the non-discrimination rule stipulated in Art. 11<sup>3</sup> of the Polish Labour Code, Any form of workplace discrimination, whether direct or indirect, on grounds of gender, age, disability, race, religion, nationality, political views, trade union membership, ethnicity, religious denomination, sexual orientation, or whether an employee is employed under a fixed-term or indefinite term full-time or part-time contract is prohibited.*

The Company's Articles of Association define rules for appointment of the Management Board and for election of Management Board members by employees. The Collective Labour Agreement set forth the employment and promotion criteria for managerial positions, based on a competence model and psychological tests verifying candidates' management abilities.

Also the Work Rules of Grupa Azoty S.A. contain a section devoted to equal treatment in employment. Over the years, the Group has developed rules that support non-discrimination and diversity, and ensure equal opportunities for professional development of the workforce, and thus contribute to higher work efficiency and the Group's development.

## 8.14. Remuneration policy

### Remuneration system at the Parent

The Parent's remuneration policy relies on a negotiation system. Remuneration is set by way of negotiation between the Management Board and the trade unions. As part of the process, the average remuneration growth rate in 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 year. The key principles governing the terms of employment and remuneration are provided for 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 covered by 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 the year.

### Remuneration policy for members of the Management Board

Managerial contracts have been concluded with Management Board members for the period of their appointment as the President, Vice President, or member of the Company's Management Board.

Each managerial contract provides that if such contract is terminated for reasons other than a breach by a Management Board member of their principal duties thereunder, the Management Board member will be entitled to receive a severance payment equal to three times his or her fixed monthly remuneration, provided that the member has held the position for at least 12 months prior to the termination. No severance payment is due if:

- the contract is terminated by mutual agreement of the parties,
- the contract is terminated within the notice period,
- the contract is terminated by the Company with immediate effect in the event of the Management Board member's material default under the contract, in particular when: the Management Board member has committed an offence confirmed by a final court judgment, preventing such Management Board member from performing his or her duties under the contract; the Management Board member, by his or her act, omission or negligence, could cause damage to the Company,
- the Management Board member has resigned from his or her position,
- the contract is terminated or amended due to a change of the Management Board member's position on the Management Board or their responsibilities,
- the contract is terminated or amended due to the Management Board member's appointment for another term of office,
- when, despite the termination of the contract, the Management Board member continues to serve as a member of the Company's Management Board, or continues or begins to serve as a member of the Management Board in a subsidiary of the Group.

For a period of six months after the termination of each managerial contract, none of the Management Board members may conduct any activity which, under the Contract, is in competition with to the business of the Company or any subsidiary of the Group. Management Board members are entitled to receive, for a period equal to the non-compete period, compensation for refraining from competition, equal to 100% of the fixed remuneration paid to them prior to the termination. The right to receive the compensation expires on breach of the non-compete agreement.

Remuneration of Management Board members comprises:

- a fixed component in the form of a monthly base pay,
- a variable component representing additional remuneration payable for the Company's financial year,
- additional benefits granted each time by the Supervisory Board.

The monthly remuneration of a Management Board member is the product (depending on the position held) of the average monthly remuneration in the business sector, net of bonuses paid from profit, in the fourth quarter of the previous year, as announced by the President of the Central Statistics Office of Poland (GUS). Starting from the calendar month following the month in which the President of GUS announced the amount of the average monthly remuneration, the amount of the fixed remuneration is changed accordingly.

The fixed remuneration is reduced by the amount payable for the days on which no work was performed by a Management Board member (except for the 26 business days of leave during the term of the contract to which each Management Board member is entitled).

The fixed monthly remuneration comprises all components and elements of remuneration payable on a monthly basis.

The variable (additional) remuneration depends on the progress in the delivery of management objectives and is paid in accordance with the rules stipulated in Resolution No. 8 of the Company's General Meeting of December 2nd 2016 (as amended by a resolution of the General Meeting of June 30th 2017), and in the Act on rules of remunerating persons who direct certain companies of June 9th 2016 (Dz.U. of 2016, item 1202).

Variable remuneration is paid after:

- approval of the Directors' Report on the Company's operations and of the financial statements for the previous financial year,
- the General Meeting has granted a Management Board member discharge in respect of performance of their duties in a given financial year,
- a Management Board member has submitted a report on performance of the management objectives,
- the Supervisory Board has approved performance of the management objectives by the Management Board member in a given year,
- the Supervisory Board has adopted a resolution on performance of the management objectives and the amount of variable remuneration due.

#### Rules governing remuneration of key management personnel

Persons holding key managerial positions at the Parent are hired under management contracts. Under 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, parking space for a private car, a portable computer with Internet access and a mobile phone with unlimited business calls, 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 Parent's financial results. In accordance with the Collective Bargaining Agreement, the Parent's current and forecast economic condition 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 results of the Parent and the degree of achievement of the targets set for the individual managers.

#### Remuneration of the Parent's Management Board members

|                            | Remuneration paid             |                                  | Total | Remuneration potentially due* |
|----------------------------|-------------------------------|----------------------------------|-------|-------------------------------|
|                            | fixed remuneration components | variable remuneration components |       |                               |
| Wojciech Wardacki, PhD     | 705                           | -                                | 705   | 793                           |
| Tomasz Hinc                | 642                           | 250                              | 892   | 687                           |
| Grzegorz Kądziałowski, PhD | 307                           | 3                                | 310   | 687                           |
| Artur Kopec                | 393                           | 177                              | 570   | 423                           |
| Paweł Łapiński             | 652                           | 269                              | 921   | 687                           |
| Józef Rojek                | 634                           | 288                              | 922   | 687                           |
| Witold Szczypiński         | 635                           | 577                              | 1,212 | 687                           |

\* 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 2018.

## Remuneration of the Parent's Supervisory Board members

|                       | Remuneration paid             |                                  | Total | Remuneration potentially due |
|-----------------------|-------------------------------|----------------------------------|-------|------------------------------|
|                       | fixed remuneration components | variable remuneration components |       |                              |
| Piotr Czajkowski      | 50                            | -                                | 50    | -                            |
| Monika Fill           | 134                           | 2                                | 136   | -                            |
| Michał Gabryel        | -                             | -                                | -     | -                            |
| Marek Grzelaczyk      | 136                           | 7                                | 143   | -                            |
| Robert Kapka*         | 404                           | 1                                | 405   | -                            |
| Tomasz Karusewicz     | 158                           | -                                | 158   | -                            |
| Artur Kucharski       | 104                           | 3                                | 107   | -                            |
| Bartłomiej Litwińczuk | 145                           | -                                | 145   | -                            |
| Zbigniew Paprocki**   | 294                           | 1                                | 295   | -                            |
| Ireneusz Purgacz      | 148                           | 3                                | 151   | -                            |
| Roman Romaniszyn***   | 236                           | 1                                | 237   | -                            |

\* including remuneration under employment contract with the Company - PLN 259 thousand,

\*\* including remuneration under employment contract with the Company - PLN 137 thousand,

\*\*\* including remuneration under employment contract with the Company - PLN 91 thousand,

## Remuneration of the Parent's management and supervisory personnel for holding office at the Group's subsidiaries

|                        | Remuneration paid             |                                  | Total |
|------------------------|-------------------------------|----------------------------------|-------|
|                        | fixed remuneration components | variable remuneration components |       |
| Wojciech Wardacki, PhD | 29                            | -                                | 29    |

### Further information on remuneration

In the reporting period, the base pay and the allowance for work in a continuous system increased on average by, respectively, PLN 100 and PLN 50 per employee, starting from July 1st 2017. The incentive bonus fund was increased by PLN 50 per employee.

In 2017, PLN 4,500 in the form of in-kind assistance was paid per employee from the Company Social Benefits Fund.

In the reporting period, the Group did not recognise any retirement or similar benefit obligations with respect to former members of management, supervisory or administrative bodies. There were no collective redundancies, nor was there any collective dispute with trade unions.

## 8.15. Sponsorship, charitable or similar activities

The Group treats its social responsibilities and cooperation with the communities in which operates as matters of strategic and long-term importance. Social, sponsorship, and charitable initiatives are key elements contributing to the implementation of the long-term development strategy of the Group. Through its engagement in such initiatives, the Group promotes its image of both financially strong and socially responsible business.

The multifaceted and advanced nature of these activities make the Group companies active participants of the local community life, providing support where it is most needed.

### Social and sponsorship policy

The social and sponsorship activities are pursued in compliance with the "Group Policy and Rules of Social and Sponsorship Activities", formulated and implemented in 2013, and charitable initiatives are governed by the "Group Donation Policy" and the "Grupa Azoty S.A. Donation Policy", adopted in 2013.

Directions for the social and sponsorship activities:

- 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,
- Social and sponsorship projects relating to local initiatives, often with a supraregional, or even international, media coverage,
- Social and sponsorship projects relating to nationwide or international initiatives, going beyond the framework of local initiatives.

Objectives of the social and sponsorship activities:

- Building a positive image of the Group as a people- and environmentally-friendly business,
- Building the Group's and its companies' image as socially responsible businesses supporting local initiatives,
- Promoting the Grupa Azoty brand by increasing its recognition outside the group of its customers and buyers of its products,
- Communicating Grupa Azoty's message to circles which are important for the Company, with focus on the importance of high standards of projects and initiatives implemented by the Group,
- Building the Group's and its companies' reputation, and gaining recognition and favourable perception among the public, particularly for the positive role the Group plays in solving social and environmental issues of today's world,
- Enhancing attractiveness of the regions in which the Group operates as places to live, work, pursue passions and fulfil ambitions; while offering young people the best possible education, health and wellbeing opportunities,
- Supporting promotional and commercial activities.

Social and sponsorship activities of Grupa Azoty PUŁAWY in 2017 were conducted in accordance with a plan adopted by the Company's Management Board and approved by the Supervisory Board. The Company acted in line with the adopted rules on types and forms of assistance.

As part of its sponsorship activities, Grupa Azoty POLICE signs sponsorship agreements, agreements for promotional and advertising activities, and donation agreements. Image building and product promotion are carried out through various cultural, educational, scientific, sports and other initiatives. These activities, carried out in a transparent manner and with the aim of delivering tangible promotional and image-building benefits, help both the sponsor and the sponsored party build value and convey a positive image.

At Grupa Azoty SIARKOPOL, sponsorship activities form a material component of the company's promotional efforts. Key efforts include building a positive image, brand promotion, communicating the Group's message to significant stakeholder groups, with a focus on the importance of high standards and on implemented projects, building reputation, enhancing the region's attractiveness, supporting local initiatives.

#### **Charitable giving policy**

The Group-wide donation policy specifies the rules of granting donations. Through donations, the Group seeks to actively respond to the needs of foundations, associations, schools, non-profit organisations and individuals in difficult circumstances. In particular, the Group supports projects contributing to the enhancement of medical care, social and educational development of children and youth, as well as other initiatives benefiting local communities.

The Group builds its socially responsible image in the region by supporting:

- both professional and amateur sports,
- cultural initiatives, including mass cultural events,
- educational institutions for children and youth,
- healthcare institutions providing services to employees and their families,
- research programmes,
- regional environmental initiatives,
- social campaigns.

The Group builds its business image by sponsoring:

- professional sports, including sports clubs,
- sports associations, national and international sports competitions, including sports leagues in team sports,
- the Polish Olympic Committee,
- individual athletes, subject to approval by respective national sports associations.

All donations are granted in line with the Group-wide donation policy as well as individuals companies' rules for granting donations.

In 2017, the Parent gave donations for initiatives related to: religious worship, preservation and promotion of national tradition, health protection and promotion, social welfare, support for the disabled, support for families, motherhood and parenthood, education, and activities fostering development of local communities.

Projects supported with Grupa Azoty KĘDZIERZYN's donations in 2017 involved: health protection and promotion, assistance in difficult situations, treatment and rehabilitation, support for the disabled, religious worship, preservation of cultural heritage, etc.

Grupa Azoty PUŁAWY engages in projects contributing to better quality of medical care, promoting healthy lifestyles, fostering social and educational development of children and youth, as well as events designed to preserve and promote national tradition, cultivate the Polish national identity, and develop national, civic and cultural awareness. In 2017, organisations supported by Grupa Azoty PUŁAWY included:

- Azoty Yacht Club of Puławy, which organises sailing courses and training camps on lakes and on the Vistula river,
- Company's PTTK (Polish Tourist Association) Branch, organising and promoting tourist activities among the Company's employees;
- 'Chemik' Puławy Society for the Promotion of Physical Culture,
- Technical School Complex,
- 'Dom Chemika' Puławy Cultural Centre,
- Henryk Sienkiewicz Museum in Wola Okrzejska.

Through donations, Grupa Azoty POLICE actively responds to the needs voiced by the employees, associations, foundations and other organisations in the region. In 2017, organisations supported by Grupa Azoty POLICE included:

- Szczecin Province Football Association,
- Municipality of Szczecin,
- County of Police, Children's Home in Police,
- West Pomeranian University of Technology in Szczecin,
- Retirees Association of Former Employees of Grupa Azoty Zakłady Chemiczne Police S.A.,
- 'Polish Community' (Wspólnota Polska) Association,
- Szczecin Region of Polish Scouting and Guiding Association,
- Safe Pomerania Foundation,
- 'Ostoja' Abstainers Association,
- 'Leń' Water Association.

#### **Social and sponsorship initiatives for culture**

Grupa Azoty S.A. supports a number of cultural events (such as the Grupa Azoty International Jazz Contest) and cultural institutions, including the Mościce Arts Centre, Puellae Orantes Girls' Cathedral Choir Association, Tarnów Art Exhibition Centre, Paderewski Centre in Kaźna Dolna, and Tarnów Regional Museum.

Grupa Azoty PUŁAWY also engages in activities fostering development of the local community by helping to organise cultural events and supporting cultural initiatives. For another year, the company cooperated with the 'Dom Chemika' Puławy Cultural Centre (the largest one in the region) and the Musical Theatre in Lublin. Grupa Azoty PUŁAWY engages in activities fostering development of the local community by helping to organise cultural events and supporting cultural initiatives. 2017 saw the company continue its partnership with the 'Dom Chemika' Puławy Cultural Centre (the largest one in the region) and the Lublin Polish Radio, which it supported in organising the 'Not Only Rock'n'roll' series of concerts. In 2017, the company assumed, for the year, patronage over the Henryk Sienkiewicz Museum in Wola Okrzejska and co-financed the purchase of a part of the manuscript of Sienkiewicz's novel 'Potop'.

Grupa Azoty POLICE supports local cultural institutions and numerous cultural events, including a concert on the Cursed Soldiers Remembrance Day and the Flora&Funga Pomeranica conference, which it helped organise.

Grupa Azoty KĘDZIERZYN sponsors the protection of local cultural heritage, in particular by supporting the activities of the Koźle Region Association, which protects the history and monuments of the Koźle Region and the City of Kędzierzyn-Koźle. The company also takes care to help ensure the quality of the town's cultural events, supporting the Municipal Cultural Centre. For years, it has supported the

Inland Navigation Youth Brass Orchestra, as well as minor events, such as the second edition of the Concert of Cultures, organised by the Association of Friends of the Echo Kresów Choir.  
Cultural events supported by Grupa Azoty SIARKOPOL include: the Days of Bread - our Grandparents' Flavours in Staszów and the International Children's Day organised by the Staszów Cultural Centre.

#### **Social and sponsorship initiatives for education of children and the youth**

Grupa Azoty S.A. partners with schools and universities as part of its research programmes, but also in such areas as internships, work placement opportunities and workshops for students; it also works with several other entities to support the education of children and youth, which include the SIEMACHA Association, KANA Catholic Youth Education Centre, General Education School Complex No. 1 of Tarnów-Mościce, Technical School Complex, and Sports School Complex.

Grupa Azoty PUŁAWY continued its partnership with the Puławy Technical School Complex and the Maria Curie-Skłodowska University in Lublin (the Puławy branch campus). The Company's initiatives also extended to the youngest residents of the Puławy county. In partnership with the Puławy Science and Technology Park, it organised fairs promoting science among children and youth as part of the Young Chemist's Day, Lublin Science Festival, and Santa Claus Joy Show.

Grupa Azoty KĘDZIERZYN organised its first Christmas Fair for employees, during which over 500 of them supported accompanying charity campaigns. The raised money went to the local branch of the Polish Red Cross, and the following four charities supporting children received donation grant decisions: the ARKA Sociotherapy Centre, PROMYCZEK Communal Self-Help Centre, Children's Home in Kędzierzyn-Koźle and Brzdąc Association for Assistance to Children.

In cooperation with schools and higher education institutions, Grupa Azoty POLICE has for a number of years arranged training placements and internships for students. The company's cooperation with local communities involves supporting educational initiatives and institutions at various levels, as well as scholarship programmes. It also helps students and researchers interested in various aspects of the Police-based company's operations.

#### **Social and sponsorship initiatives for sports**

- In 2015, Grupa Azoty S.A. launched Grupa Azoty START - its original comprehensive, multi-year social outreach project designed to discover young sports talent. The following initiatives have been undertaken as part of the Grupa Azoty START Programme: Basketball Development Programme, Speedway Development Programme, Handball Development Programme, Cross-Country Skiing Development Programme.
- The Group also supports numerous other nationwide and local sporting events. According to experts, the Grupa Azoty brand - following its consolidation - has become one of the most visible brands in Polish sports, particularly in such disciplines as ski jumping, volleyball and speedway.
- As part of additional initiatives designed to advertise and promote its brand, the Group worked with individual athletes and sportsmen, such as Piotr Żyła (ski jumping) and Janusz Kołodziej (speedway), and with sports associations, clubs, and teams, including the Polish Ski Federation, the Unia Tarnów speedway team, the Tarnów Handball Association, the Unia Tarnów Association Football Club, the Jedyńka Tarnów Women's Volleyball Club, the MLKS Dąbrowia Archery Club, the Popular Interschool Students' Sports Club at Junior High School No. 8 in Tarnów, and other. In 2017, the greatest sums were allocated to sponsoring professional sports.
- Grupa Azoty PUŁAWY continued its involvement with the Azoty-Puławy and Wisła Puławy sports clubs. At the beginning of 2017, Grupa Azoty Puławy became a sponsor of Malwina Kopron, a Puławy resident female athlete specialising in hammer throw.
- Grupa Azoty PUŁAWY also provided support to various associations of sports fans and enthusiasts. In 2017, it sponsored the Azoty Yacht Club of Puławy, which organises sailing courses and camps on lakes and the Vistula River, the company's PTTK (Polish Tourist Association) Branch, which organises and promotes tourist activities among company employees, and the 'Chemik' Puławy Society for the Promotion of Physical Culture. Grupa Azoty PUŁAWY supported young athletes, including Jakub Szymula, a talented wrestler from the Lublin region, representative of Poland.
- Grupa Azoty KĘDZIERZYN has been a long-standing Main Sponsor of ZAKSA Kędzierzyn-Koźle, a premier league volleyball team, promoting not only the company, but also the town, region and province. In 2017, based on an agreement with Grupa Azoty S.A., Grupa Azoty KĘDZIERZYN became responsible for the support of Odra Opole, a first-league football club, with the use of a broadband access channel, thus consolidating Grupa Azoty's positive image. The company has also supported Bartłomiej Mróz, a parabadminton player.
- As far as amateur sports are concerned, Grupa Azoty KĘDZIERZYN provides support to a number of regional initiatives, including the 'Chemik' Sporting Society (football academy and boxing sections) and Lewada Equestrian Club, as well as various projects undertaken by the 'Koziołek' Sports Club



(e.g. the Sixth Charitable Santa Claus Run), the Municipal Interschool Sports Club (e.g. the 'Koziołki Pływackie' swimming championships) and the Santa Claus Basket Tournament in Prudnik.

- In 2017, Grupa Azoty POLICE continued its cooperation with MKS Pogoń Szczecin, a premier league football team, and with KPS Chemik Police, a top-ranking volleyball women's club. Furthermore, Grupa Azoty POLICE initiated partnership with the Chemik Police Football Club, becoming its Main Partner.
- Grupa Azoty POLICE also sponsors local amateur sports initiatives, including by providing financial assistance to: The 'WODNIK' Students' Swimming Club, 'Champion' Students' Sports Club, Szczecin Fencing Association, 'Biegam bo Lubię' Runners' Club, 'Dzik' Runners' Club, and the Police Sports and Recreation Centre.

#### **Social and sponsorship initiatives for regional promotion and development**

- In 2014, Grupa Azoty S.A. organised the first New Year's Charity Concert. In 2017, proceeds from the concert were given to people under the care of the Prometeusz Association for the Assistance to the Disabled Children and Their Families of Zbylitowska Góra.
- Grupa Azoty S.A. also supports the Tarnów Branch of the Polish Tourist Association, the Society of the Friends of Mościce, and the Tytus Chałubiński HDK PCK Club at Grupa Azoty S.A.
- Grupa Azoty Kędzierzyn has signed a patronage agreement with the Inland Navigation School Complex, allowing its students learning to be 'inland navigation technicians' to use Grupa Azoty ZAK S.A.'s water infrastructure and port and to take part in open days at Grupa Azoty ZAK S.A. The agreement also provides for expert support in joint initiatives, e.g. conferences or scientific sessions on inland waterway transport, and implementation of a Scholarship Programme for students in the 'inland navigation technician' educational stream.

#### **Social and sponsorship initiatives to promote protection of human life and health**

- Grupa Azoty S.A. supports the Centre for Children with Special Educational Needs in Zbylitowska Góra and the Ich Lepsze Jutro Association.
- In 2017, the 'Grupa Azoty PUŁAWY Sports Academy' was established, as a social outreach through sports initiative for children practising football. It serves as a platform for cooperation with sports clubs and teams within the Company's orbit. who play under the common logo of the Sports Academy and Grupa Azoty PUŁAWY. So far, several clubs have joined the programme, but in 2018 it will be extended to include further sports clubs and associations.
- The Grupa Azoty Group engages in projects which contribute to improving the quality of medical care or promote healthy lifestyles. For instance, it offered assistance to the Children's Heart Foundation, the Safe Pomerania Foundation, and the Association of Soldiers Wounded and Injured in Foreign Missions.

#### **Social responsibility and sponsorship programmes for the chemical industry**

Grupa Azoty joined Poland's dozen or so largest companies that founded the Polish National Foundation, whose mission is to promote and protect the image of Poland and the Polish economy, and to foster positive social reception of investment projects pursued by state-owned companies. The new organisation is to work with local communities, social and business institutions, and to undertake and finance social initiatives.

Grupa Azoty supports the Federation of Engineering Associations FSNT-NOT, the FSNT-NOT Tarnów Council, and the Tarnów Branch of the Polish Association of Chemical Engineers SITPChem.

Grupa Azoty KĘDZIERZYN supports the operations of the Kędzierzyn-Koźle Branch of the Polish Association of Chemical Engineers SITPChem, as well as selected events aimed at promoting entrepreneurship, carried out or organised by the Kędzierzyn-Koźle Industrial Park. The company was involved in the 'Chemistry for Agriculture International Science and Technology Seminar' in Karpacz, the aim of which was to increase the use of the potential of R&D units in business projects, and in particular to select candidates for R&D subcontractors.

### **Corporate social responsibility**

The Group's CSR initiatives are related to:

- amateur sports, including:
  - financial support mainly for: schools, youth clubs and associations, and initiatives undertaken using publicly available sports facilities,
  - sponsorship of disabled athletes,
  - support for sports initiatives in the region, seeking to ensure equal opportunities for all communities across the region,
- cultural initiatives, including mass cultural events,
- education, including public schooling,
- science and research projects furthering and promoting the history and tradition of Poland's chemical industry and supporting its development,
- environmental initiatives,
- healthcare institutions providing services to employees and their families,
- social campaigns.

#### ***Scholarship programme at Grupa Azoty S.A.***

The initiative, launched in 2014, is addressed to students of the master's programme of the Faculty of Chemical Engineering and Technology of the Cracow University of Technology. It provides for two scholarships of PLN 1,000 per month each. The scholarships will be awarded until the grantees complete the master's programme and obtain a master's degree in engineering, up to the age of 26. Scholarships are awarded in accordance with the 'Group Scholarship Policy' as well as scholarship programmes and rules separately approved by management boards of individual Group companies. The winners receive scholarships of PLN 1,000 a month, are guaranteed employment at the Group, and are offered an opportunity to participate in joint projects between science and industry.

#### **Scholarship programme at Grupa Azoty Kędzierzyn**

In 2017, Grupa Azoty KĘDZIERZYN granted 38 scholarships to the most talented students of School Complex No. 3 of Kędzierzyn-Koźle. Scholarships are granted on the basis of the Grupa Azoty Group's scholarship policy as well as scholarship programmes and Rules for Scholarship Granting, a separate document approved by the Company's Management Board. Students of the school's chemical forms are guaranteed the possibility of completing their work placements and learning one of their vocational subjects at Grupa Azoty KĘDZIERZYN facilities.

In June, the company also signed a patronage agreement with the Inland Navigation School Complex covering, for instance, a Scholarship Programme for students following the 'inland navigation technician' educational stream.

#### ***Collaboration with educational institutions***

Grupa Azoty S.A. actively supports its local community through partnership with educational institutions. The Parent also works with scientific and research centres on joint educational initiatives. For several years now, it has been partnering with the Cracow University of Technology, running internship programmes, assisting in bachelor's and master's theses, student and doctoral placements and, more generally, in getting industry practitioners to educate students.

Cooperation with the State Higher Vocational School in Tarnów includes provision of student internships, diploma internships, workshops and laboratories at the Company's business units, educational field trips for students, and lectures given by Company experts.

Cooperation with the Technical School Complex of Tarnów includes: employment of ten school leavers each year, granting scholarships for best-performing students, sponsoring awards for olympiad, contest, and competition winners, organisation of work placements, preparation of dedicated instruction classes conducted by Grupa Azoty experts, organisation of educational field trips, organisation of teacher training in cutting-edge technologies, and co-financing purchases of teaching aids. The initiatives are implemented in partnership with the Ignacy Mościcki Foundation.

Grupa Azoty PUŁAWY continued its partnership with the Puławy Technical School Complex and the Maria Curie-Skłodowska University in Lublin (the Puławy branch campus).

In 2017, Grupa Azoty KĘDZIERZYN involved itself in Collegium Nobilium Opoliense, a unique educational programme for ambitious people who want to improve their social competences and skills, and also to develop their attitude of responsibility for the local community and the state, striving for continuous self-improvement and development. Collegium Nobilium is a hotbed of ideals and moral strength in the spirit of modern patriotism expressed by respect for the state, its tradition and history, diligence and devotion to the common good, which aims to rebuild the ethos of commitment and public service.

### **Competitions and programmes**

Grupa Azoty S.A. has launched Idea4Azoty, an unconventional accelerator programme which provides a platform for sharing highly innovative ideas and combining crowdsourcing, networking and collaboration with startups. The accelerator programme is the first initiative of this type on the Polish market. Its beneficiaries will include not only the chemical industry, but also providers of new technologies and services in such areas as environmental protection, agriculture, engineering and biotechnology.

Grupa Azoty PUŁAWY also participated in the activities of the Secretariat of the international Responsible Care Programme. In 2017, on the initiative of chemical companies, the thirteenth 'Tree for a Bottle' campaign was held, addressed to children of the Puławy region. Once again, the nationwide 'Catch the Hare' photo competition was organised for employees and children of employees of the companies that have joined the international Responsible Care Programme.

Grupa Azoty KĘDZIERZYN also participated in the activities of the Secretariat of the Responsible Care Programme. In 2017, Grupa Azoty KĘDZIERZYN ran another edition of environmental protection workshops for pupils of Kędzierzyn-Koźle elementary schools.

Grupa Azoty POLICE implemented the 'Report a Safety Hazard' and 'Zero Accidents' preventive programmes, engaging the entire workforce in a safety improvement effort. As part of its health protection initiatives, it offered an additional medical package to all interested employees and their families. The integrated management system in place at the company guarantees a high level of safety and fosters a friendly working environment. In recognition of its achievements in improving working conditions, the Central Institute for Labour Protection awarded the company with the 'Safe Work Leader Gold Card' for 2017-2018.

## **8.16. Report on entertainment expenses, legal costs, marketing costs, public relations and social communication expenses, and management consultancy fees**

### **8.16.1. Introduction**

The report was prepared on the basis of Art. 56.1 of the Grupa Azoty S.A. Articles of Association. The data is presented in PLN, with all amounts given in thousands of PLN. The report does not show the amount of input tax. The amounts provided are net of tax.

### **8.16.2. Expenses**

Public relations and social communication expenses amounted to PLN 17,678 thousand (PLN 17,845 thousand including gifts).

These expenditures were mainly related to activities intended to foster (build and maintain) relations with the Company's and the Group's external stakeholders (investors, media, local communities, employees) and build a positive image of the Group.

They were pursued in particular through:

- media monitoring,
- participation and organisation of conferences and other events,
- sponsorship,
- initiatives addressed to the Company's employees and their families,
- corporate social responsibility (CSR) efforts.

Marketing expenses amounted to PLN 2,653 thousand (PLN 2,768 thousand including gifts)

Marketing expenses were related mainly to the promotion of products offered by Grupa Azoty. They were incurred in particular on: advertising services, advertising materials with logos, organisation of events, participation in fairs, and market research.

Management consultancy fees amounted to PLN 1,749 thousand.

These expenditures were related in particular to: consultancy services in the area of strategic and organisational planning (business consulting), production management, HR consultancy services, business and financial analysis.

Legal expenses amounted to PLN 572 thousand.

These expenses were made in particular on the preparation of legal opinions, legal advice related to strategic plans, and patent counselling.

Entertainment expenses amounted to PLN 399 thousand.

## 9. Other material information and events

### 9.1. Qualified auditor

On March 28th 2017, the Parent's Supervisory Board appointed a qualified auditor to review and audit the separate financial statements of the Parent and consolidated financial statements of the Grupa Azoty Group for the financial years 2017, 2018 and 2019.

The entity appointed to perform the reviews and audits is Ernst & Young Audyt Polska Sp. z o.o. sp.k., with its registered office at Rondo ONZ 1, 00-124 Warsaw, Poland. Ernst & Young Audyt Polska Sp. z o.o. sp. k. is entered in the list of audit firms under No. 130.

#### Parent

The agreement of June 29th 2017 and annex 1 of January 31st 2018 with Ernst & Young Audyt Polska spółka z ograniczoną odpowiedzialnością sp. k. of Warsaw ("EY") provides for:

- an audit of Grupa Azoty's Financial Statements and the Group's Consolidated Financial Statements for the years ended December 31st 2017, December 31st 2018, and December 31st 2019,
- a review of Grupa Azoty's Condensed Financial Statements and the Group's Condensed Consolidated Financial Statements for the six months ended June 30th 2017, June 30th 2018, and June 30th 2019.

#### Fees for EY services rendered to the Parent

| Item   | 2017       | 2016*      |
|--|------------|------------|
| Audit of the full-year separate and consolidated financial statements of the Parent and the Group  | 189        | 187        |
| Review of the half-year separate and consolidated financial statements of the Parent and the Group | 82         | 107        |
| Other services**   | 11         | 95         |
| <b>Total</b>   | <b>282</b> | <b>389</b> |

\* In 2016, the qualified auditor of the financial statements was KPMG Audyt Sp. z o.o.

\*\* Audit of the Project Status and Delivery Report on implementation of projects included in the National Investment Plan.

Fees for the audit/review of the financial statements and of the consolidation package of other companies of the Group are paid pursuant to separate agreements executed between the qualified auditor of financial statements and each company.

## Fees for EY services rendered to companies of the Group (excluding the Parent)

| Item  | 2017             | 2016 <sup>1)</sup> |
|---|------------------|--------------------|
| Audit of the full-year separate and consolidated financial statements of the company and audit or review of consolidation package | 844              | 963 <sup>2)</sup>  |
| Review of the half-year separate and consolidated financial statements of the company and review of consolidation package         | 185              | 209                |
| Other services  | 60 <sup>3)</sup> | 153                |
| <b>Total</b>  | <b>1,089</b>     | <b>1,325</b>       |

<sup>1)</sup> In 2016, the qualified auditor of the financial statements was KPMG Audyt Sp. z o.o.

<sup>2)</sup> Includes additional fees for non-standard work as part of the audit of the financial statements.

<sup>3)</sup> Financial audit services concerning the financial statements of subsidiary Supra Agrochemia Sp. z o.o. for the six months ended June 30th 2017.

## 9.2. Environmental performance

### Sustainable development policy

Grupa Azoty has implemented a strategic approach to sustainable development, based on its long-term Sustainable Development Strategy. The Strategy was developed on the basis of the Company's existing good practices as well as research and analyses conducted both internally within the Company and among its stakeholders. It is founded on the business strategy. This approach allows the Group to enhance its economic value and to build value for the stakeholders.

The strategy reflects an integrated approach to:

- economic efficiency,
- responsibility towards staff and the natural environment,
- relationship with the environment.

The Sustainable Development Strategy rests on three pillars:

- sustainable production (mitigation of environmental impacts, creation of sustainable products, and increasing environmental awareness),
- dialogue and relationship building (active dialogue with all stakeholder groups, implementing a code of ethics),
- workplace (improving employee satisfaction and workplace safety).

The Parent's R&D Centre is being expanded with a view to carrying out research and development work to test new industrial technologies first in the laboratory, and then on an experimental basis. The R&D work will involve:

- implementing new or improved technologies and environment-friendly products,
- reducing the energy intensity of adopted technologies,
- reducing the amount of waste generated by adopted technologies,
- developing new technologies relying on synergies with the Group's by-products.

The Centre will focus on research into new, effective and environment-friendly technologies. Through these efforts, it will develop new technologies which may reduce the energy intensity of processes, thus helping reduce global greenhouse gas emissions, which is consistent with the Europe 2020 targets. In 2017, Grupa Azoty SIARKOPOL was awarded a licence for appraisal of the Rudniki deposit. On August 28th 2017, a mining usufruct agreement was signed for appraisal of the Rudniki 2 native sulfur deposit. On December 11th 2017, Grupa Azoty SIARKOPOL and the National Centre for Research and Development signed an agreement on a grant for the 'Development of a technology to produce polyphenylene sulfide' project, to be implemented as part of the Smart Development Operational Programme.

### Respect Index

The purpose of the RESPECT project is to bring to light the companies that excel in communication with the market through current and periodic reports and through websites. Inclusion in the RESPECT

Index depends, among other things, on socially responsible conduct vis-à-vis the environment, the community and employees.

The selection of companies to be included in the Index is a three-stage process. The criteria evaluated in the selection process include financial condition, strategy, management processes, environmental factors, human resources policy and employee relations, as well as market impact and customer relations. Thus, Grupa Azoty S.A. has become a member of an elite group of stable, reliable and trustworthy organisations. Grupa Azoty's inclusion in the RESPECT Index provides investors with additional assurance that Grupa Azoty is a stable and safe enterprise, managed to the highest standards of sustainable development. In 2017, the Parent participated in yet another evaluation of corporate social responsibility in public companies and was awarded a certificate as a Respect Index constituent.

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

### Legal requirements

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

In the reporting period, Grupa Azoty S.A. obtained the following decisions:

- Amendment to a decision of the Governor of the Kraków Province dated February 16th 2007, Ref. No. ŚR.XIV.JI.6663-6-05, granting an integrated (IPPC) permit to Zakłady Azotowe w Tarnowie-Mościcach for the Park Infrastruktura Complex, valid for an indefinite term (permit amended by a decision of March 10th 2017, Ref. No. SR-II.7222.2.9.2016),
- Amendment to a decision of the Governor of the Kraków Province dated July 29th 2011, Ref. No. SW.II.1.AJ.7673-10/09, granting an integrated (IPPC) permit to Zakłady Azotowe w Tarnowie-Mościcach for the Technical Grade Nitric Acid Unit, Calcium Ammonium Nitrate and Ammonium Nitrate Unit, Nitrogen Fertilizer Granulation Unit, and Dolomite Milling Unit, valid for an indefinite term (permit amended by a decision of July 21st 2017, Ref. No. SR-II.7222.2.27.2016),
- Decision of the Marshal of the Kraków Province dated April 28th 2017, Ref. No. SR-II.7225.1.21.2016, granting permission to participate in the European Union Emissions Trading Scheme for the CHP plant located on the premises of Grupa Azoty S.A., valid for an indefinite term,
- Decision of the Marshal of the Kraków Province dated November 24th 2017, Ref. No. SR-II.7225.1.7.2016, granting permission to participate in the European Union Emissions Trading Scheme with respect to greenhouse gas emissions from the units manufacturing nitric acid, ammonia and bulk organic chemicals by way of cracking, reforming, oxidation or similar processes, with a daily production capacity exceeding 100 Mg, valid for an indefinite term,
- Decision of the Marshal of the Kraków Province dated December 15th 2017, Ref. No. SR-IV.7322.1.259.2017.MG, granting a permit for discharge of wastewater to surface waters, valid until December 31st 2021.

In terms of environmental protection, Grupa Azoty POLICE operates based on an integrated permit for the operation of installations, granted on January 9th 2014, as amended. The validity of the integrated permit is monitored on an ongoing basis, as a result of which two decisions of the Marshal Office of the Szczecin Province amending the integrated permit were issued:

- the first amendment updated the decision in terms of the operation of installations,
- the second one amended the decision in line with Commission Implementing Decision (EU) 2016/902 of 30 May 2016 establishing best available techniques (BAT) conclusions for the common waste water and waste gas treatment/management systems in the chemical sector, published in the Official Journal of the European Union on June 9th 2016.

In December 2017, GZNF Fosfory Sp. z o.o filed an application with the Marshal Office for amendments to its 2014 Integrated Permit to operate installations for the production of sulfuric acid and mineral fertilizers, valid for an indefinite term. The application covers the ash handling and storage facility, which will enable ash recovery at the fertilizer production unit.

In June 2017, Zakłady Azotowe Chorzów S.A. filed an application with the Marshal Office for a water-law permit for discharge of substances particularly harmful to the environment into a third-party sewage system. The Marshal Office decided that the application required to be supplemented. Zakłady Azotowe Chorzów S.A. asked for further explanations what additional information it was required to furnish.

The Group companies were actively involved in consulting the new Water Law, presenting their comments and proposing amendments. The Group companies hold all environmental certificates, permits and decisions, and have undergone all environmental reviews required for their operations.

### **Safety**

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

Advanced technological solutions enable the Group companies to actively engage in pro-environmental efforts, which are often a source of economic benefits as well. Ensuring the responsibility and safety of production processes is a fundamental principle of the Group. 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 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.

The Grupa Azoty Group companies were distinguished with the Gold Card of Safe Work Leader, which is awarded to businesses that operate effective OHS management systems and have effective OHS prevention programmes in place.

The Group has also implemented the STOP™ Safety Monitoring Programme, designed to raise the degree of OHS involvement among managers and employees of all ranks, develop hazard identification skills, improve communication with respect to OHS matters, raise awareness of the importance of occupational safety by building new attitudes.

In 2017, joint inspections were carried out at the Group by three national supervision and inspection bodies: the State Fire Service, Provincial Inspectorate for Environmental Protection, and National Labour Inspectorate.

In 2017, the Group companies updated their Safety Reports, given the execution of new investment projects and implementation of the SEVESO III Directive, Internal Rescue Operation Plans, Industrial Accident Prevention Programmes, and Upper-Tier Establishment Notifications. The above documents have been submitted for approval by the relevant Province Commanders-in-Chief of the State Fire Service.

In the second half of 2017, Grupa Azoty POLICE began to cooperate more closely with the State Fire Service in Police in terms of expanding the former's knowledge about rescue operations and the latter's knowledge of technical and technological aspects of the company's production units. Accordingly, an annual plan of training sessions was prepared involving the exchange of knowledge and experience between the Company Fire Brigade and the State Fire Service in Police. The training is part of a wider programme designed to ensure the highest level of safety.

The Group companies have appropriate organisational and technical safety measures in place, such as CCTV systems, safeguards, and procedures for incident prevention and mitigation of consequences. They maintain well-trained fire services capable of effective rescue operations, with additional support from supernumerary chemical rescue and technical rescue teams working in a continuous system and other services.

### **SPOT**

With the safety of people, their property and natural environment in mind, the Group's plants offer assistance in the event of incidents involving transport of hazardous materials. In 2000, Grupa Azoty, together 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.

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

### Environmental projects

At the Parent, the key environmental projects completed in 2017 included construction of flue gas NOx removal and desulfurisation units.

The flue gas desulfurisation and NOx removal projects were undertaken to ensure compliance of the Company's industrial combustion sources to the requirements laid down in the Minister of Environment's Regulation on Emission Standards for Installations of April 22nd 2011 and the Industrial Emissions Directive. As a result, the amount of pollutants released into the environment by the combustion sources will be reduced, improving air quality. Construction of the flue gas desulfurisation and NOx removal units was co-financed under the Norwegian Financial Mechanism 2009-2014.

In 2017, the Parent embarked on a new project - 'Collection of slag from the ECII CHP plant boilers'. The project will create the possibility of using slag to produce building materials, helping to reduce the amount of stored furnace waste.

In addition, a number of projects aimed at reducing the consumption of energy carriers in production processes and more efficient use of available resources were pursued. The important projects in this area included 'Heat recovery from the Beckmann rearrangement process - Phase 2' and 'Reduction of steam consumption in the caprolactam production process.'

At Grupa Azoty KĘDZIERZYN, the key environmental projects carried out in 2017 included:

- continued construction of a new CHP plant,
- upgrade of the ammonia transshipment station, Phase 2,
- upgrade of the urea unit,
- upgrade of the Central Mechanical and Biological Wastewater Treatment Plant,
- completion of work related to environmentally safe decommissioning of absorption towers on a disused nitric acid unit.

As part of initiatives undertaken in 2017 to support land surface protection, in accordance with a decision of the Regional Director for Environmental Protection, another land remediation process commenced on the premises of the Ammonia Department's former Copper Washing Unit 2. The process of selecting the contractor is currently under way.

The key environmental protection projects carried out in 2017 at Grupa Azoty PUŁAWY included:

- 'Wastewater collection and recirculation at Urea I unit,'
- 'Upgrade of boiler No. 2,'
- replacement of the TG-02 turbine generator set at the CHP plant,
- upgrade of the existing and construction of new nitric acid units,
- construction of a water demineralisation station.

In order to reduce emissions from its units generating high pollutant emissions, Grupa Azoty POLICE performed high-cost overhaul and upgrade work on its gas treatment units (replacement of filter cloths, repairs of absorbers and scrubbers, upgrades of dust filters).

At Grupa Azoty SIARKOPOL, the key projects conducted in 2017 in the area of environmental protection included construction of a sanitary wastewater treatment system at the Dobrów Chemical Production Plant. Modern sanitary wastewater treatment systems were installed at the Plant's individual units, ensuring proper quality of the discharged industrial wastewater.

### Water and wastewater management

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

The Parent's industrial facilities generate the following types of industrial wastewater: process wastewater, sanitary sewage, spent cooling water, and 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 are drained separately, through an EF+AO collector, collected in a retention pond, and then discharged through a Sutro weir into the Dunajec river.

The Parent is well prepared for any wastewater system failure. In order to prevent wastewater escape, the system can be entirely shut off by closing the storm water outflow valve and pumping all wastewater to the Central Treatment Plant. It is also possible to 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. The discharged wastewater meets the parameters defined in the integrated permit.

Grupa Azoty POLICE operates a sustainable water and wastewater management programme. The company takes care to ensure that the emission parameters are compliant with the terms of its integrated permit by supervising the wastewater treatment process.

For its power-generation or industrial process purposes, the company draws water from two surface water intakes:

- Western arm of the Oder river, through a river-bank water intake of the Szczecin –Świnoujście seaway,
- Gunica river (the water intake from the Gunica river was constructed along with a surface water storage and pressure-equalising tank, which is to secure sufficient amount of water without exploiting water resources of the river. Water is periodically abstracted from the Oder river, depending on its salinity).

The water is used for industrial purposes, as a cooling agent, and for fire-fighting applications. Industrial wastewater from production processes is received by the Company Wastewater Treatment Plant. Spent cooling water and stormwater from the plant are discharged directly into the surface waters of the Oder river. Spent cooling water undergoes regular automatic pH monitoring.

Industrial wastewater, leachate from the phosphogypsum landfill site, leachate from the iron sulfate (II) landfill site, sanitary sewage, and municipal wastewater from the town of Police are treated at the company's collective mechanical and chemical wastewater treatment plant.

The treated wastewater is monitored in accordance with the terms of the integrated permit. At present, the volume of discharged wastewater is monitored on an ongoing basis, while the quality of wastewater discharged into water is regularly examined by an accredited laboratory. Tests are performed in line with reference methods set forth in the Regulation of the Minister of the Environment on conditions to be met when discharging wastewater into water or soil, and on substances particularly harmful to the water environment, dated November 18th 2014.

The company meets all the requirements defined in the integrated permit for the quantities of abstracted water, volumes of discharged wastewater, pollution parameters of treated wastewater, as well as the amounts of stormwater and spent cooling water.

In 2017, Grupa Azoty KĘDZIERZYN continued the upgrade of its Central Mechanical and Biological Wastewater Treatment Plant (the project was completed in October 2017, and the commissioning is now in progress). A direct effect of the upgrade was a significant (24.5%) decrease in nitrogen compounds load and an increase in organic compounds load due to deteriorated conditions of organic compounds degradation (until October 2017, the treatment process was only carried out in one of the two denitrification and nitrification reactors).

In the period discussed, the amount of abstracted water fell (by 11.8%), mainly as a result of increased use of the wastewater recirculation system and greater availability of surface water, while the amount of wastewater discharged grew slightly (by 3.4%) due to higher precipitation.

In 2017, the permitted levels of water withdrawn from individual intakes were not exceeded. The wastewater discharged into the Oder River in 2017 met the requirements of the permit held, both in terms of its quantity and its condition and composition.

#### **Solid waste management**

In 2017, ash and slag were the main waste type. Wet ash was transferred for commercial use, while fly ash was delivered to external customers for use in construction.

Oils and lubricants transferred to MIS-Polska are used at a refinery to produce oil. On the Parent's premises, also plastic waste was commercially reused in a recovery process at the compounding units. In accordance with the Waste Act, Grupa Azoty S.A. also operates a selective waste collection programme on its premises (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.

The main type of waste by-product generated by Grupa Azoty POLICE is phosphogypsum, which is disposed of by being deposited in the company's phosphogypsum landfill site. Waste was managed in compliance with the terms of the Company's integrated permit.

Additionally, in order to meet the appropriate targets applicable to recovery and recycling of packaging waste, including composite and/or hazardous materials packaging waste, Grupa Azoty POLICE works with TOM-DALEKO-EKOLA Organizacja Odzysku Opakowań S.A. and Polska Izba Odzysku i Recyklingu Opakowań (the Polish Chamber of Recovery and Recycling of Packaging Waste).

In 2017, Grupa Azoty KĘDZIERZYN recorded a 6.9% year-on-year decrease in the amount of generated waste. The main reason for the decrease were smaller volumes of ash and slag waste (down by 44.8%), owing to the operation of a new boiler, distillation residues from the production of aldehydes and alcohols (down by 34.7%), owing to the implementation of a project related to reuse of heavy aldehyde fraction in the production process, and wastes from wastewater treatment (down by 6.2%). In 2017, 115.3 thousand Mg of waste was handed over to customers for recovery, including 71.6 thousand Mg of ash and slag.

Grupa Azoty Siarkopol fulfils the obligation to meet the targets applicable to recovery and recycling of packaging by cooperating with Eko Cykl Organizacja Odzysku Opakowań S.A.

## Emissions

The Group has implemented a range of environmental protection solutions contributing to lower air emissions.

The air pollution control 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;
- Reduced levels of pollutants in gases are achieved by using scrubbers and thermal reducers, and thanks to the desulfurisation and NOx removal units.

The Parent 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, the Parent constantly monitors air quality at 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.

Grupa Azoty POLICE takes special care to ensure compliance with the terms of its integrated permit and applicable legal regulations on emissions into the air from production nodes. At the moment, two units are monitored on a continuous basis:

- The EC II CHP plant – for SOx, NOx, and particulate matter emissions,
- The titanium dioxide production unit (decomposition and calcination node) – for SOx, sulfuric acid mists, and particulate matter emissions.

The company monitors the volumes of emissions of gaseous pollutants and particulate matter in accordance with the requirements defined in the integrated permit. To reduce pollutant emissions from the highly polluting units, overhaul and upgrading work is performed on gas treatment units, which requires substantial expenditure, including on replacement of filter cloths, repairs of absorbers and scrubbers, upgrades of dust filters. The company meets legal requirements pertaining to

integrated air protection, and complies with the requirement to provide external supervisory authorities with relevant reports in a timely manner.

Pollutant emissions are monitored on a 24/7 basis at three stations whose location allows the company to assess the impact of pollutants generated during everyday operation of its units.

In 2017, at Grupa Azoty KĘDZIERZYN, the volume of total pollutant emissions into the air (excluding CO<sub>2</sub>) decreased by 13.8% compared with 2016. The reduction, recorded for both particulate matter and gases, resulted mainly from projects completed at the Heat Department (the operation of a new boiler with a turbine set) and Urea Department (upgrade of the unit). The emissions of particulate matter and gases fell by 13.4%, including reduced emissions of sulfur dioxide, nitrogen oxides and ammonia. A significant decrease was also recorded for nitrous oxide emissions following repair of the catalytic bed on the TKV nitric acid unit and replacement of catalytic gauzes on the TKIV unit.

In the case of Grupa Azoty PUŁAWY, an analysis of data from the continuous emissions monitoring system at the on-site CHP plant showed instances of exceeding the sulfur dioxide emission standards in 2016. These excess emission volumes were recorded after the desulfurisation unit was switched off for necessary repairs.

In consequence, by virtue of a decision of March 30th 2017, Grupa Azoty PUŁAWY was charged a fine of PLN 227 thousand. No other excess emissions were identified. In 2017, no administrative proceedings related to environmental protection were conducted against Grupa Azoty PUŁAWY.

#### **CO<sub>2</sub> emission allowances**

In 2017, the average spot price of EUAs on the EU ETS market was EUR 5.86 (the highest price: EUR 8.00; the lowest price: EUR 4.26), which means an increase of approximately 11% relative to 2016, driven chiefly by higher prices of energy commodities, including crude oil, electricity and natural gas (as EUA prices correlate with those prices). The price growth (especially in the second half of the year) was also linked to the reforms of the EU ETS market after 2020.

In February 2017, distribution of free emission allowances to the participants of the EU ETS commenced.

The Grupa Azoty Group companies hold a sufficient number of allowances to meet the obligations related to the settlement of CO<sub>2</sub> emissions and redemption of allowances for 2017.

#### **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 the Parent 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 for nitric acid production.

#### **Noise emissions**

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

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.

## 10. Non-financial statement

Pursuant to Art. 49b.9 of the Accounting Act, the Group and the Parent do not prepare a non-financial statement, because they prepare a separate non-financial report, which is available at the website <http://tarnow.grupaazoty.com/pl/relacje/raportyokresowe.html> from the date of publication of the financial report, i.e. April 19th 2018.

## 11. Supplementary information

### Explanation of differences between actual results and the financial forecasts for 2017

As no forecasts for 2017 were published, the position of the Parent's Management Board concerning achievement of such forecasts is not presented.

### Litigation

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

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

### Related-party transactions

In 2017, the Group companies did not execute any related-party transactions otherwise than on arm's length terms.

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

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

### Parent's branches

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

### Shares, share issues

In 2017, 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.

### Events after the reporting period

#### Petition to open bankruptcy proceedings with respect to African Investment Group S.A.

Having declared insolvency on March 29th 2018, African Investment Group S.A., a Grupa Azoty POLICE subsidiary with a share capital of CFA 340m (PLN 2,169 thousand, translated at the mid exchange rate for March 28th 2018), filed a petition for bankruptcy with the Commercial Court of Dakar on March 29th 2018.

#### Execution of contract for the purchase of phosphate rock

On April 9th 2018, Grupa Azoty POLICE entered into a contract for the purchase of Moroccan phosphate rock with Office Chérifien des Phosphates ("OCP") of Casablanca, Morocco (the seller).

The contract was concluded for a definite period from January 1st 2018 to December 31st 2020 and defines a specific schedule and other commercial terms of the deliveries. The value of the deliveries to be made under the contract is estimated at approximately PLN 350m.

The other terms and conditions of the Agreement do not differ from standard terms used in agreements of this type.

The execution of the contract was deemed inside information by Grupa Azoty POLICE as the contract concerns supplies of phosphate rock, the primary raw material for the manufacture of compound

fertilizers, in quantities sufficient to satisfy the company's demand for that material for the next three years. OCP, being the world's largest exporter of phosphorites, guarantees timely delivery of phosphate rock of high and consistent quality.

This Directors' Report on the operations of Grupa Azoty for the 12 months ended December 31st 2017 contains 134 pages.

#### Signatures of members of the Management Board

.....  
Wojciech Wardacki, PhD  
*President of the  
Management Board*

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

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*Director General*

.....  
Paweł Łapiński  
*Vice President of the  
Management Board*

.....  
Grzegorz Kądziaławski, PhD  
*Vice President of the  
Management Board*

.....  
Józef Rojek  
*Vice President of the  
Management Board*

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

Tarnów, April 18th 2018