



Consolidated report of the Grupa Azoty Group
on payments to governments
for 2019

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1. General information

1.1. Basis of preparation

This consolidated report on payments to governments has been prepared in accordance with the provisions of Section 6a of the Accounting Act of September 29th 1994 (Dz.U. of 1994, No. 121, item 591, consolidated text: Dz.U. of 2018, item 395), and presents payments to governments made by the Grupa Azoty Group with regard to the upstream sector.

To satisfy the requirements of Art. 63e-Art. 63j of the Accounting Act, the Grupa Azoty Group prepares a consolidated report on payments to governments including information on:

- Total amount of payments made to governments in a given country, broken down into payments made at appropriate government levels,
- Total amount of payments made to governments in a given country, at appropriate government levels, broken down into payment categories set out in Art. 63e.6 of the Accounting Act,
- Where payments have been assigned by the entity to a specific project – total amount of payments for each project, broken down into payment categories set out in Art. 63e.6 of the Accounting Act.

Grupa Azoty S.A., as the parent of the Grupa Azoty Group, is obliged to issue a consolidated report on payments to governments as at December 31st 2019, including data of the Group companies operating in the upstream sector.

Payments to governments presented in this report are related to the exploration for, appraisal and production of sulfur in Poland.

1.2. Description of the Group

Grupa Azoty S.A. is the Parent of the Grupa Azoty Group.

The Parent was entered in the Register of Businesses in the National Court Register (entry No. KRS 0000075450) on December 28th 2001, pursuant to a ruling of the District Court for Kraków-Śródmieście in Kraków, 12th Commercial Division of the National Court Register, dated December 28th 2001. The Parent's REGON number for public statistics purposes is 850002268.

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

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.

1.3. Upstream operations

In 2019, the Grupa Azoty Group included one company operating in the upstream sector: Grupa Azoty Kopalnie i Zakłady Chemiczne Siarki Siarkopol S.A.

The company's registered office is located in Grzybów. Grupa Azoty Kopalnie i Zakłady Chemiczne Siarki Siarkopol S.A. is Poland's largest producers of liquid sulfur.

Sulfur is produced at the Osiek Sulfur Mine, based on a closed-loop system for heat and formation water.

On the premises of the Osiek Sulfur Mine, there is a sulfur granulation and pastillation unit enabling transformation of liquid sulfur into granules (sized 0.5mm-6.3mm) and pastilles. The key purpose of the granulation and pastillation processes is to facilitate and reduce the cost of long-haul transport (by sea). The Osiek Sulfur Mine is the only operational sulfur mine in the world. Sulfur is typically obtained through refining crude oil and natural gas. This product is economically competitive to sulfur extracted using the underground melting method as the costs of its production are charged to the main product - oil or gas.

In 2018, the Grupa Azoty Group included two companies operating in the mining sector: Grupa Azoty Kopalnie i Zakłady Chemiczne Siarki Siarkopol S.A. and African Investment Group S.A. of Senegal (subsidiary of Grupa Azoty POLICE).

On May 30th 2018, the shares in African Investment Group S.A. held by Grupa Azoty POLICE and Grupa Azoty Police Serwis Sp. z o.o. (a subsidiary of Grupa Azoty POLICE) were transferred back to DGG Eco Sp. z o.o. As of that date, the two companies are not shareholders in African Investment Group S.A. (for details of the transaction, see the Directors' Report on the operations of Grupa Azoty S.A. and the Grupa Azoty Group for the 12 months ended December 31st 2018).

2. Payments to governments by country

Payments by country in 2019

| | Taxes levied on income, production or profits, excluding taxes levied on consumption, such as value added taxes, personal income taxes or sales taxes | Royalties | Licence fees, rental fees, entry fees, and other considerations for licences or concessions | Total |
|--|---|--------------|---|---------------|
| POLAND: | | | | |
| Central and local authorities: | | | | |
| Tax Office in Kielce | 1,119 | - | - | 1,119 |
| County Councils | - | - | 185 | 185 |
| Marshal Office | - | 200 | - | 200 |
| Regional Directorate for State Forests in Radom | - | 673 | - | 673 |
| Customs Chamber in Kraków | 157 | - | - | 157 |
| National Fund for Environmental Protection and Water Management | - | 435 | - | 435 |
| Ministry of Environment | - | - | 1,015 | 1,015 |
| Undertakings supervised or controlled by the authorities: | | | | |
| Municipality and Town Municipal Offices | | 586 | 7,897 | 8,483 |
| TOTAL | 1,276 | 1,894 | 9,097 | 12,267 |

Payments by country in 2018

| | Taxes levied on income, production or profits, excluding taxes levied on consumption, such as value added taxes, personal income taxes or sales taxes | Royalties | Licence fees, rental fees, entry fees, and other considerations for licences or concessions | Total |
|--|---|--------------|---|---------------|
| POLAND: | | | | |
| Central and local authorities: | | | | |
| Tax Office in Kielce | 370 | - | - | 370 |
| County Councils | - | - | 178 | 178 |
| Marshal Office | - | 208 | - | 208 |
| Regional Directorate for State Forests in Radom | - | 384 | - | 384 |
| Customs Chamber in Kraków | 509 | - | - | 509 |
| National Fund for Environmental Protection and Water Management | - | 438 | - | 438 |
| Ministry of Environment | - | - | 10 | 10 |
| Undertakings supervised or controlled by the authorities: | | | | |
| Municipality and Town Municipal Offices | - | 632 | 7,836 | 8,468 |
| POLAND TOTAL | 879 | 1,662 | 8,024 | 10,565 |
| SENEGAL: | | | | |
| Central, regional and local authorities: | | | | |
| General Directorate for Taxes and State Treasury: tax office, local government | 29 | - | - | 29 |
| SENEGAL TOTAL | 29 | - | - | 29 |
| TOTAL | 908 | 1,662 | 8,024 | 10,594 |

3. Payments to governments by project

Payments by project in 2019

| | Taxes levied on income, production or profits, excluding taxes levied on consumption, such as value added taxes, personal income taxes or sales taxes | Royalties | Licence fees, rental fees, entry fees, and other considerations for licences or concessions | Total |
|--|---|--------------|---|---------------|
| Payments at project level | | | | |
| Sulfur Production Project | 1,119 | 977 | 1,015 | 3,111 |
| Total projects | 1,119 | 977 | 1,015 | 3,111 |
| Payments at entity level | | | | |
| Payments at the level of Grupa Azoty KiZCh Siarkopol S.A. ¹⁾ | 157 | 917 | 8,082 | 9,156 |
| Total payments at entity level | 157 | 917 | 8,082 | 9,156 |
| TOTAL | 1,276 | 1,894 | 9,097 | 12,267 |

¹⁾ The largest item of taxes levied (PLN 721 thousand) is withholding tax; the largest items of fees are property tax (PLN 7,897 thousand), royalties (PLN 977 thousand), and fees for using geological information (PLN 994 thousand).

Payments by project in 2018

| | Taxes levied on income, production or profits, excluding taxes levied on consumption, such as value added taxes, personal income taxes or sales taxes | Royalties | Licence fees, rental fees, entry fees, and other considerations for licences or concessions | Total |
|--|---|--------------|---|---------------|
| Payments at project level | | | | |
| Sulfur Production Project | 370 | 1,053 | 10 | 1,433 |
| Kebemer | 1 | - | - | 1 |
| Total projects | 371 | 1,053 | 10 | 1,434 |
| Payments at entity level | | | | |
| Payments at the level of Grupa Azoty KiZCh Siarkopol S.A. ¹⁾ | 509 | 609 | 8,014 | 9,132 |
| Payments at the level of African Investment Group S.A. | 28 | - | - | 28 |
| Total payments at entity level | 537 | 609 | 8,014 | 9,160 |
| TOTAL | 908 | 1,662 | 8,024 | 10,594 |

¹⁾ The largest item of taxes levied (PLN 509 thousand) is excise duty; the largest item of fees is property tax (PLN 7,802 thousand) and royalties (PLN 1,053 thousand).

4. Policies followed in the preparation of this report on payments to governments

4.1. Key preparation policies

This consolidated report on payments to governments has been prepared on a cash basis. In 2019, no in-kind payments were made.

The data contained in this consolidated report on payments to governments is presented in the Polish zloty, rounded to the nearest thousand. The Polish zloty is the functional currency of the parent – Grupa Azoty.

4.2. Key presentation policies

The following presentation policies have been applied in the preparation of this consolidated report on payments to governments:

Payments

Amounts paid to governments of individual countries, related to the exploration for, discovery, development and production of minerals, sulfur and other deposits (upstream operations).

Governments

Government means any national, regional and local authority, including undertakings supervised or controlled by such authorities (including state-owned companies).

Projects

A project is defined as the operational activities carried out in a distinct exploration area under a licence obtained for that area, which form the basis for payment liabilities to a government.

Payments are disclosed at project level, except where it is impossible to assign them to a given project - in such cases payments are disclosed at entity level.

Identified payment categories

- a) Taxes levied on income, production or profits of the companies, excluding taxes levied on consumption, such as value added taxes, personal income taxes or sales taxes.
This payment category includes also excise tax on electricity consumption and interest accrued from the date of classifying amounts spent on acquisition or production of assets as tax-deductible expenses until the date on which the period of their use exceeds one year.
- b) Royalties.
This item includes emission charges, annual charges, and environmental charges.
- c) Licence fees, rental fees, entry fees, and other considerations for licences or concessions.
This category includes also payments related to tax on means of transport used in upstream operations and paid property taxes.

Signatures of members of the Management Board

Signed with qualified electronic signature

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Wojciech Wardacki, PhD

President of the Management Board

Signed with qualified electronic signature

.....

Mariusz Grab

Vice President of the Management Board

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Grzegorz Kądziałowski, PhD

Vice President of the Management Board

Signed with qualified electronic signature

.....

Artur Kopec

Member of the Management Board

Signed with qualified electronic signature

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Witold Szczypiński

Vice President of the Management Board,

Director General

Signed with qualified electronic signature

.....

Tomasz Hryniewicz

Vice President of the Management Board

Signed with qualified electronic signature

.....

Paweł Łapiński

Vice President of the Management Board

Tarnów, April 7th 2020