



Directors' Report
on the Operations of Grupa Azoty S.A.
and the Grupa Azoty Group
for the 12 months ended
December 31st 2019

This Directors' Report presents the key events which occurred in the 12 months ended December 31st 2019 at the Grupa Azoty Group and its parent Grupa Azoty S.A.

This Report includes all information which is essential for the assessment of the Group's and the Parent's financial condition and assets, including the 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.

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1. General information on the Grupa Azoty Group and its Parent

1.1. Organisation and structure

Parent of the Grupa Azoty Group

Grupa Azoty S.A. is the Parent of the Grupa Azoty Group (“Grupa Azoty”, the “Group”, the “Grupa Azoty 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. Its stock is a constituent of the WIG, WIG30, mWIG 40, WIG-Poland, WIG-CHEMIA, WIG.MS-PET (as of March 2019) and WIG-ESG (as of September 2019) indices. It was also a constituent of the RESPECT Index (until its expiry at the end of 2019). Grupa Azoty shares are also included in foreign indices (MSCI Emerging Markets and FTSE Russel). The Company is an ESG (environmental, social and governance) company - FTSE4Good Emerging Index and MSCI ESG.

Its registered office is located at ul. Eugeniusza Kwiatkowskiego 8, Tarnów, Poland.

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 2019, the Grupa Azoty Group comprised: Grupa Azoty S.A. (the Parent), direct subsidiaries:

- COMPO EXPERT Holding GmbH (“COMPO EXPERT”, formerly Goat TopCo GmbH) - wholly-owned,
- Grupa Azoty ATT Polymers GmbH - wholly-owned,
- Grupa Azoty Compounding Sp. z o.o. - wholly-owned,
- Grupa Azoty Folie Sp. z o.o. w likwidacji (in liquidation) - wholly-owned,
- Grupa Azoty Kopalnie i Zakłady Chemiczne Siarki Siarkopol S.A. (Grupa Azoty SIARKOPOL) - a 99.40% interest,
- Grupa Azoty Zakłady Azotowe Puławy S.A. (Grupa Azoty PUŁAWY) - a 95.98% interest,
- Grupa Azoty Zakłady Azotowe Kędzierzyn S.A. (Grupa Azoty KĘDZIERZYN) - a 93.48% interest,
- Grupa Azoty Zakłady Chemiczne Police S.A. (Grupa Azoty POLICE) - a 66% interest,
- Grupa Azoty Polskie Konsorcjum Chemiczne Sp. z o.o. (Grupa Azoty PKCh Sp. z o.o.) - a 63.27% interest, with Grupa Azoty KĘDZIERZYN holding a 36.73% interest,
- Grupa Azoty Koltar Sp. z o.o. (Grupa Azoty KOLTAR) - a 60% interest, with Grupa Azoty PUŁAWY and Grupa Azoty KĘDZIERZYN each holding a 20% interest,

as well as the indirect subsidiaries and associates presented in the charts on the next pages.

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

Parent's direct subsidiaries

Grupa Azoty Zakłady Azotowe Puławy S.A.

The company's registered office is located 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 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 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 Kędzierzyn).

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

COMPO EXPERT Holding GmbH

The company's registered office is located in Münster, Germany.

The Company is a holding company for 21 subsidiaries, including the main operating company COMPO EXPERT GmbH, one of the world's largest manufacturers of speciality fertilizers for professional customers.

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's services encompass comprehensive design support for investment projects in the chemical industry – from study and concept work to engineering design, building permit design and working plans, to services provided 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 countrywide railway transport services. 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 dangerous 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 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.

The Company manufactures and sells modified plastics.

Grupa Azoty Folie Spółka z ograniczoną odpowiedzialnością w likwidacji (in liquidation)

On December 31st 2019, the Extraordinary General Meeting passed resolutions to dissolve Grupa Azoty Folie Sp. z o.o. and to put the Company into liquidation, remove the Company's Management Board members and appoint a Liquidator.

Parent's equity interests in subsidiaries as at December 31st 2019

<i>(in relevant currency)</i>			
Company	Registered office/address	Share capital	% of shares held directly
COMPO EXPERT Holding GmbH	Krögerweg 10 48155, Münster, Germany	EUR 25,000	100.00
Grupa Azoty ATT Polymers GmbH	Forster Straße 72 03172 Guben, Germany	EUR 9,000,000	100.00
Grupa Azoty Compounding Sp. z o.o.	ul. Chemiczna 118 33-101 Tarnów, Poland	PLN 72,007,700	100.00
Grupa Azoty Folie Sp. z o.o. w likwidacji (in liquidation)	ul. Chemiczna 118 33-101 Tarnów, Poland	PLN 5,500,000	100.00
Grupa Azoty SIARKOPOL	Grzybów, 28-200 Staszów, Poland	PLN 60,620,090	99.40
Grupa Azoty PUŁAWY	al. Tysiąclecia Państwa Polskiego 13 24-110 Puławy, Poland	PLN 191,150,000	95.98
Grupa Azoty KĘDZIERZYN	ul. Mostowa 30 A skr. poczt. 163 47-220 Kędzierzyn-Koźle, Poland	PLN 285,064,300	93.48
Grupa Azoty POLICE	ul. Kuźnicka 1 72-010 Police, Poland	PLN 750,000,000	66.00
Grupa Azoty PKCh Sp. z o.o.	ul. Kwiatkowskiego 7 33-101 Tarnów, Poland	PLN 85,630,550	63.27
Grupa Azoty KOLTAR Sp. z o.o.	ul. Kwiatkowskiego 8 33-101 Tarnów, Poland	PLN 54,600,000	60.00

The Parent and its subsidiaries as at December 31st 2019



1	Parent	2	Grupa Azoty PUŁAWY 95.98%	5	Grupa Azoty SIARKOPOL 99.40%
	Grupa Azoty „Compounding” Sp. z o.o. 100%	3	Grupa Azoty POLICE 66%	6	Grupa Azoty ATT Polymers GmbH 100%
	Grupa Azoty „Folie” Sp. z o.o. w likwidacji 100%	4	Grupa Azoty KĘDZIERZYN 93.48%	7	COMPO EXPERT Holding GmbH 100%
	Grupa Azoty KOLTAR Sp. z o.o. 60%				
	Grupa Azoty PKCh Sp. z o.o. 63.27%				

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 2019

Grupa Azoty PUŁAWY

Company	Ownership interest (%)	Share capital
Agrochem Puławy Sp. z o.o.	100.00	68,639
SCF Natural Sp. z o.o.	99.99	15,001
Gdańskie Zakłady Nawozów Fosforowych Fosfory Sp. z o.o.	99.19	59,003
Zakłady Azotowe Chorzów S.A.	96.48	94,700
STO-ZAP Sp. z o.o.	96.15	1,117
Remzap Sp. z o.o.	94.61	1,812
Prozap Sp. z o.o.	84.69	826
Bałycka Baza Masowa Sp. z o.o.	50.00	19,500
Grupa Azoty KOLTAR Sp. z o.o.	20.00	54,600
Technochimserwis S.A. (closed joint-stock company)	25.00	RUB 800 (thousand)

Grupa Azoty POLICE

Company	Ownership interest (%)	Share capital
Supra Agrochemia Sp. z o.o.	100.00	19,721
Grupa Azoty Transtech 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	132,000 (XOF thousand)
Zarząd Morskiego Portu Police Sp. z o.o.	99.91	32,642
Grupa Azoty Polyolefins S.A. ^{*)}	53.00	467,339
Infrapark Police S.A. w likwidacji (in liquidation) ^{**)}	54.43	14,986
Budchem Sp. z o.o. w upadłości likwidacyjnej (in liquidation bankructcy)	48.96	1,201
Kemipol Sp. z o.o.	33.99	3,445

^{*)} The Parent holds 47% of shares in Grupa Azoty Polyolefins S.A. (former PDH Polska S.A.) PDH Polska S.A.

^{**)} Decision of the District Court to remove the company from the National Court Register - November 18th 2019. Date on which removal from the National Court Register became final: December 4th 2019, date of removal from the register: January 9th 2020.

Grupa Azoty KĘDZIERZYN

Company	Ownership interest (%)	Share capital
ZAKSA S.A. ^{*)}	91.67	6,000
Grupa Azoty Polskie Konsorcjum Chemiczne Sp. z o.o.	36.73	85,631
Grupa Azoty KOLTAR Sp. z o.o.	20.00	54,600

^{*)} Grupa Azoty KOLTAR 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.	100.00	21,749
Grupa Azoty Prorem Sp. z o.o.	100.00	11,567
Grupa Azoty Automatyka Sp. z o.o.	77.86	4,654

Compo Expert Holding GmbH Group

Company	Ownership interest (%)	Share capital
COMPO EXPERT International GmbH	100	EUR 25 thousand

COMPO EXPERT International GmbH

Company	Ownership interest (%)	Share capital
COMPO EXPERT GmbH	100.00	EUR 25 thousand
COMPO EXPERT Italia S.r.l.	100.00	EUR 10 thousand
COMPO EXPERT Spain S.L.	100.00	EUR 3.10 thousand
COMPO EXPERT Benelux N.V.*	99.99	EUR 7,965.01 thousand
COMPO EXPERT Chile Fertilizantes Ltda.**	99.99	CLP 1,528,560 thousand
COMPO EXPERT Hellas S.A.	100.00	EUR 60 thousand
COMPO EXPERT Argentina SRL***	90.00	ARS 41,199 thousand
COMPO EXPERT Brasil Fertilizantes Ltda.****	99.99	BRL 26,199.42 thousand
COMPO EXPERT Techn. (Shenzhen) Co. Ltd.	100.00	RMB 2,810 thousand
COMPO EXPERT France SAS	100.00	EUR 523.67 thousand
COMPO EXPERT India Private Limited	99.99	INR 250 thousand
COMPO EXPERT Asia Pacific Sdn. Bhd.	100.00	MYR 500 thousand
COMPO EXPERT Mexico S.A. de C.V.*****	99.99	MXN 100 thousand
COMPO EXPERT Polska Sp. z o.o.	100.00	PLN 6 thousand
COMPO EXPERT Portugal, Unipessoal Lda.	100.00	EUR 2 thousand
COMPO EXPERT Turkey Tarim Sanai ve Ticaret Ltd. Şirketi*****	96.17	TRY 264,375
COMPO EXPERT UK Ltd.	100.00	GBP 1
COMPO EXPERT USA&CANADA Inc.	100.00	USD 1

* 0.0103% of the share capital is held by COMPO EXPERT GmbH.

** 0.01% of the share capital is held by COMPO EXPERT GmbH.

*** 10.000024% of the share capital is held by COMPO EXPERT GmbH.

**** 0.000003% of the share capital is held by COMPO EXPERT GmbH.

***** 0.000311% of the share capital is held by COMPO EXPERT GmbH.

***** 3.83% of the share capital is held by COMPO EXPERT GmbH.

COMPO EXPERT GmbH holds shares in:

Company	Ownership interest (%)	Share capital
COMPO EXPERT South Africa (Pty) Ltd.	100.00	ZAR 0
COMPO EXPERT Austria GmbH	100.00	EUR 35 thousand

COMPO EXPERT Holding GmbH Group and its subsidiaries as at December 31st 2019 - Europe



1 COMPO EXPERT
International GmbH
Germany

2 COMPO EXPERT Spain S.L.
Spain

3 COMPO EXPERT Benelux N.V.
Belgium

4 COMPO EXPERT Hellas S.A.
Greece

5 COMPO EXPERT France SAS
France

6 COMPO EXPERT Italia S.r.l.
Italy

7 COMPO EXPERT Polska Sp. z o.o.
Poland

8 COMPO EXPERT Portugal, Unipessoal Lda.
Portugal

9 COMPO EXPERT TURKEY Tarım San.ve Tic. Ltd. Şti.
Turkey

10 COMPO EXPERT UK Ltd.
United Kingdom

11 COMPO EXPERT Austria GmbH
Austria

Source: Company data.

COMPO EXPERT Holding GmbH Group and its subsidiaries as at December 31st 2019 - rest of the world



12 COMPO EXPERT Chile FERTILIZANTES Ltda.
Chile

13 COMPO EXPERT Argentina SRL
Argentina

14 COMPO EXPERT BRASIL FERTILIZANTES Ltda.
Brazil

15 COMPO EXPERT Techn. Co. Ltd.
China

16 COMPO EXPERT India Private Limited
India

17 COMPO EXPERT Asia Pacific Sdn. Bhd.
Malaysia

18 COMPO EXPERT Mexico S.A. de C.V.
Mexico

19 COMPO EXPERT USA & Canada, Inc.
USA

20 COMPO EXPERT South Africa (Pty) Ltd.
South Africa

Source: Company data.

Parent's significant minority interests in related companies as at December 31st 2019

Company	Ownership interest (%)
Grupa Azoty POLYOLEFINS	47.00
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.

Registration of merger between Grupa Azoty PUŁAWY and Elektrownia Puławy Sp. z o.o.

On January 2nd 2019, a merger between Grupa Azoty PUŁAWY and Elektrownia Puławy Sp. z o.o. was registered in the National Court Register.

The merger was effected pursuant to a simplified procedure under Art. 492.1.1 of the Commercial Companies Code, i.e. by way of transfer of all the assets of Elektrownia Puławy Sp. z o.o. to Grupa Azoty PUŁAWY.

Registration of share capital increase at Grupa Azoty KOLTAR Sp. z o.o.

On January 8th 2019, an increase of Grupa Azoty KOLTAR's share capital to PLN 54,600 thousand was entered in the National Court Register.

The Parent now holds a 60% equity interest in the company, while Grupa Azoty PUŁAWY and Grupa Azoty KĘDZIERZYN hold a 20% interest each.

Change in percentage of voting rights held in PROZAP Sp. z o.o.

On February 26th 2019, the Management Board of PROZAP Sp. z o.o. cancelled one share held by a natural person. As a result, the percentage of total voting rights at the General Meeting of PROZAP Sp. z o.o. held by Grupa Azoty PUŁAWY increased from 86.15% to 86.20%.

Increase of Grupa Azoty POLICE's share capital

On March 4th 2019, the Management Board of Grupa Azoty POLICE resolved to increase the company's share capital through a rights issue and to amend the Articles of Association.

The purpose of the share issue was to raise proceeds to support the implementation of Grupa Azoty Group's strategy for the coming years, in particular to diversify revenue streams and increase profitability, and to step up the efforts to expand the non-fertilizer business lines. The key task undertaken in the pursuit of these strategic goals is the implementation of the Polimery Police project ("Polimery Police Project") by Grupa Azoty Polyolefins S.A. ("Grupa Azoty POLYOLEFINS"; until October 8th 2019 the company operated under the name PDH Polska S.A.).

On April 26th 2019, an Extraordinary General Meeting of Grupa Azoty POLICE passed a resolution to increase the company's share capital through a secondary public offering ("SPO") for an amount not higher than PLN 1,100m, addressed to the existing shareholders (rights issue).

On May 29th 2019, in connection with the planned issue of Grupa Azoty POLICE shares, the Parent's Management Board resolved to take up shares, in a private placement, through the exercise of pre-emptive rights and placement of additional subscription orders for the issue price determined by the Grupa Azoty POLICE Management Board, or to take up shares not taken up by investors in the rights issue, for the issue price specified by the Grupa Azoty POLICE Management Board in the invitation addressed to the Parent to subscribe for such shares, with the proviso that immediately after the issue the Company should retain at least 50% plus one vote at the General Meeting of Grupa Azoty POLICE.

Given the risks (the risk of refusal to register allotment certificates in the Central Securities Depository of Poland, failure to register allotment certificates and inability to introduce the shares to trading on the Warsaw Stock Exchange ("WSE"), which would prevent investors from trading in their allotment certificates or shares, and the use of an incorrect procedure concerning the powers of the National Agriculture Support Centre under the Act on Shaping the Agricultural System would invalidate the entire share issue due to the interpretative doubts concerning the provisions of the amended Act on Shaping the Agricultural System) identified in the regulatory environment, on June 5th 2019 the Management Board of Grupa Azoty POLICE decided to suspend the performance of the Extraordinary General Meeting's resolution. On August 26th 2019, the Management Board of Grupa Azoty POLICE decided to resume the SPO and passed a resolution to increase the company's share capital through a rights issue and to amend the Articles of Association, and repealed the previous resolution of March 4th 2019.

On September 23rd 2019, the General Meeting of Grupa Azoty POLICE passed resolutions to increase the company's share capital by way of a rights issue, to carry out a public offering of new shares, to set November 7th 2019 as the cum-rights date, to convert the new shares into book-entry form, and to seek admission and introduction of the pre-emptive rights, allotment certificates and new shares to trading on the regulated market, and to amend to the company's Articles of Association.

In connection with the resolution passed by the Extraordinary General Meeting of Grupa Azoty POLICE on September 23rd 2019, on October 10th 2019 the Parent's Management Board passed a resolution to request the General Meeting to:

- grant its consent to the company's purchase of the planned issue shares for the issue price determined by the Management Board of Grupa Azoty POLICE, as part of a rights issue, to the extent required for Grupa Azoty S.A. to retain operational control and ownership of Grupa Azoty POLICE, with the proviso that upon registration by the court of the increase in Grupa Azoty POLICE's share capital in connection with the planned issue, the Parent's equity interest in Grupa Azoty POLICE should not exceed 66%;
- authorise the Management Board to take all formal and legal steps to subscribe for offer shares in the exercise of pre-emptive rights or as a result of placing additional subscription orders for offer shares or acquiring offer shares not acquired by investors as part of the rights issue, including determination of the final number of offer shares to be acquired as part of the Planned Issue, and a possible purchase or sale by the company of pre-emptive rights or Grupa Azoty POLICE shares, subject to prior consent of the company's Supervisory Board for any such transaction where its value exceeds PLN 6m.

On November 4th 2019, the Management Board of Grupa Azoty POLICE passed a resolution under which:

- the issue price of Series C ordinary bearer shares (the "New Shares") was set at PLN 10.20 per New Share,
- the number of pre-emptive rights entitling their holder to subscribe for one New Share was set at 0.68181818181,
- one pre-emptive entitled its holder to subscribe for 1.46666666667 New Shares.

On November 5th 2019, the Central Securities Depository of Poland issued a statement to the effect that it had executed an agreement with Grupa Azoty POLICE on registration in the depository of 75 million pre-emptive rights to Series C ordinary bearer shares with a par value of PLN 10.00 per share.

On November 7th 2019, the Management Board of the Warsaw Stock Exchange passed a resolution to admit and introduce to trading on the WSE Main Market the pre-emptive rights to Series C ordinary bearer shares in Grupa Azoty POLICE. On November 12th 2019, the WSE Management Board decided to introduce the pre-emptive rights to Series C ordinary bearer shares to trading on the main market, provided that the Central Securities Depository of Poland registers those pre-emptive rights on or before November 12th 2019 and that the pre-emptive rights will be traded from November 12th to November 14th 2019 (inclusive) in the continuous trading system.

On November 8th 2019, the Extraordinary General Meeting of the Parent passed a resolution to approve the acquisition by the company of shares in the increased share capital of Grupa Azoty POLICE.

On December 5th 2019, Grupa Azoty POLICE signed an investment agreement with the State Treasury, represented by the Prime Minister. Under the agreement, the State Treasury acquired 5,513,722 new Series C shares for a total amount of PLN 56,239,964.40. Grupa Azoty POLICE made a commitment to the State Treasury that it will allocate all the funds to the implementation by Grupa Azoty POLYOLEFINS of an investment project to construct propylene and polypropylene production units together with auxiliary infrastructure.

On December 9th 2019, the Parent instructed an investment firm to subscribe on its behalf for 28,551,500 shares under the planned issue at the issue price of PLN 10.20 per share, i.e. for a total amount of PLN 291,225,300.00, in the exercise of the pre-emptive rights held by the Parent.

Following the successful issue of 49,175,768 Series C ordinary bearer shares issued pursuant to Resolution No. 4 of the Extraordinary General Meeting of Grupa Azoty POLICE of September 23rd 2019, on December 23rd 2019 the Management Board of Grupa Azoty POLICE passed a resolution to allot 49,175,768 new shares which were duly subscribed and paid for.

On January 10th 2020, the District Court for Szczecin-Centrum of Szczecin, 13th Commercial Division of the National Court Register, registered an increase in the share capital and amendments to the Articles of Association of Grupa Azoty POLICE.

After the registration of the increase, the share capital of Grupa Azoty POLICE amounts to PLN 1,241,757,680 and is divided into 124,175,768 shares with a par value of PLN 10.00 per share,

including:

- 60,000,000 Series A shares,
- 15,000,000 Series B shares,
- 49,175,768 Series C shares.

The total number of voting rights attached to all the shares in issue is 124,175,768.

As a result of its participation in the public offering of new shares in Grupa Azoty POLICE, the Parent acquired 28,551,500 shares and holds in aggregate 78,051,500 shares in Grupa Azoty POLICE, representing 62.86% of its share capital.

Purchase of shares in Grupa Azoty POLYOLEFINS^{*)}

On March 27th 2019, the Parent's Management Board passed a resolution to acquire 9,782,808 new shares in Grupa Azoty POLYOLEFINS at the issue price of PLN 10.00 per share, i.e. for a total amount of PLN 97,828,080.00.

On March 28th 2019, the Management Board of Grupa Azoty POLICE passed a resolution to acquire 6,551,092 new shares in Grupa Azoty POLYOLEFINS at the issue price of PLN 10.00 per share, i.e. for a total amount of PLN 65,510,920.

On April 26th 2019, the General Meeting of Grupa Azoty POLYOLEFINS passed a resolution to increase the company's share capital by PLN 163,339 thousand through an issue of 16,333,900 new shares with a par value of PLN 10 per share.

The new shares were taken up by way of a private placement by:

- Grupa Azoty POLICE, which took up shares with a par value of PLN 65,510,920,
- the Parent, which took up shares with a par value of PLN 97,828,080.

Payments towards the share capital on account of purchase of new shares in Grupa Azoty POLYOLEFINS were made in full by July 19th 2019.

On August 7th 2019, the District Court for Szczecin-Centrum of Szczecin, 13th Commercial Division of the National Court Register, registered an increase in the company's share capital.

Following the registration of the share capital increase, Grupa Azoty POLICE holds a total of 24,768,967 shares in that company, representing 53% of its share capital, while the Parent holds a total of 21,964,933 shares (47% of the share capital).

Share capital increase at Grupa Azoty POLYOLEFINS after the reporting date

On January 24th 2020, an Extraordinary General Meeting of Grupa Azoty POLICE, and on February 17th 2020 - an Extraordinary General Meeting of the Parent approved the acquisition by the companies of shares, for the issue price specified by the General Meeting of Grupa Azoty POLYOLEFINS, by way of a private placement, within the meaning of Art. 431.2.1 of the Commercial Companies Code, in a number ensuring that the companies' current percentage shareholdings in Grupa Azoty POLYOLEFINS are maintained.

It was assumed that the amounts to be spent to acquire Grupa Azoty POLYOLEFINS shares as part of the new share issue will not exceed PLN 334,968 thousand in the case of Grupa Azoty POLICE and PLN 297,047 thousand in the case of the Parent.

On February 18th 2020, an Extraordinary General Meeting of Grupa Azoty POLYOLEFINS passed a resolution to increase the share capital by PLN 131,944,310.00 through the issue of 13,194,431 new Series F registered shares with a par value of PLN 10.00 per share. The issue price of each Series F share is PLN 47.90.

The new shares will be taken up in a private placement by Grupa Azoty POLICE, which will take up 6,993,048 shares, and by the Parent, which will take up 6,201,383 shares.

On March 18th 2020, the Parent's Management Board passed a resolution to acquire 6,201,383 shares in Grupa Azoty POLYOLEFINS as part of the issue of Series F shares, for the issue price of PLN 47.90 per share (total amount of PLN 297,046,245.70). In order to implement the resolution, the Management Board will request the Supervisory Board to grant consent for the above actions.

Share capital increase at Grupa Azoty SIARKOPOL

On April 15th 2019, an Extraordinary General Meeting of Grupa Azoty SIARKOPOL passed a resolution to increase the company's share capital and amend the Articles of Association to reflect the increase.

The company's share capital was to be increased through the issue of not fewer than 179,153 and not more than 180,281 new Series C registered shares with a par value of PLN 10 per share. The shares were to be taken up in exchange for cash contributions paid before the registration of the share capital increase. The price of the New Shares was PLN 53.38 per share. The New Shares carry

^{*)} Until October 8th, the company operated under the name PDH Polska S.A.

the right to dividend as of January 1st 2019, on a par with the other company shares, that is for the entire 2019. The record date for the pre-emptive rights in respect of the New Shares, within the meaning of Art. 432.2 of the Commercial Companies Code, was set for April 15th 2019.

April 29th 2019 was set as the record date for the pre-emptive rights and May 20th 2019 was set as the closing date for the exercise of the pre-emptive rights. It was the last day on which subscription orders placed in the exercise of the pre-emptive rights were accepted.

On May 20th 2019, in the exercise of its pre-emptive rights the Parent subscribed for 179,153 Series C ordinary registered shares in Grupa Azoty SIARKOPOL, paying PLN 9,563,187.14 for the shares. A request for registering the PLN 1,791,530 share capital increase was filed with the Registry Court on July 17th 2019. The increase was registered on August 18th 2019

The share capital was increased by PLN 1,791,530 to PLN 60,620,090. All the new shares were taken up by the Parent who, as a result, held 6,025,212 shares in Grupa Azoty SIARKOPOL, representing 99.39% of its share capital.

On June 19th 2019, in connection with a repurchase request, the Annual General Meeting of Grupa Azoty SIARKOPOL resolved to repurchase 200 Series A registered shares with a par value of PLN 10 per share.

The repurchase price for the shares was determined as equal to the value of net assets attributable to the shares, as disclosed in the financial statements for 2018, less the amount allocated for distribution to shareholders, that is PLN 52.91 per repurchased share and a total price of PLN 10,582.00. The Parent was the shareholder obliged to repurchase the shares. The purchase of the shares was conditional on the National Centre for Agricultural Support, acting for the State Treasury, not exercising its pre-emptive right to the shares within the statutory time limit. As a result of the share repurchase on November 27th 2019, the Parent became the holder of 6,025,412 shares in Grupa Azoty SIARKOPOL, representing 99.40% of its share capital.

Change of COMPO EXPERT Group companies' names

By way of General Meeting resolutions of June 13th 2019,

- Goat HoldCo GmbH was renamed as COMPO EXPERT Holding GmbH,
- Goat BidCo GmbH was renamed as COMPO EXPERT International GmbH.

On July 10th 2019, the changes were entered in the German Commercial Register (HRB).

Changes of corporate governance rules at the COMPO EXPERT Group

The COMPO EXPERT Group companies came under the corporate governance rules applicable at the Grupa Azoty Group following amendment of the articles of association of COMPO EXPERT Holding GmbH, COMPO EXPERT International GmbH, and COMPO EXPERT GmbH. The amendments to the articles of association are related to the establishment of supervisory boards at the companies, change of their financial years (introduction of the financial year corresponding to the calendar year in line with the rules applicable at the Grupa Azoty Group), and introduction of corporate governance rules compliant with the Act on State Property Management of December 16th 2016.

The amendments are effective as of July 9th 2019.

On July 10th 2019, the changes were entered in the German Commercial Register (HRB).

Merger of COMPO EXPERT Group companies

The merger of Goat TopCo GmbH and COMPO EXPERT Holding GmbH as the acquirer was completed.

On July 29th 2019, the Deed of Merger between COMPO EXPERT Holding GmbH (formerly Goat HoldCo GmbH) and Goat TopCo GmbH was signed, with COMPO EXPERT Holding GmbH as the acquirer. The acquiree (Goat TopCo GmbH) transferred all its assets, rights and obligations through dissolution without liquidation to the acquirer by way of a merger. The merger was carried out based on balance sheets prepared as at December 31st 2018 and became official upon its registration in the commercial register on August 6th 2019, with effect as of January 1st 2019.

Upon registration of the merger, Goat TopCo GmbH was deleted from the register.

Liquidation of Infrapark Police S.A. w likwidacji (in liquidation)

On July 18th 2019, following completion of all liquidation proceedings, the Liquidators of Infrapark Police S.A. w likwidacji (in liquidation) filed an application with the District Court to remove the company from the Business Register. On November 18th 2019, the District Court for Szczecin - Centrum, 13th Commercial Division, decided to remove the company from the National Court Register. The decision became final on December 4th 2019. The effective date of removal from the register is January 9th 2020.

Transtech Usługi Sprzętowe i Transportowe Sp. z o.o. name change

On August 27th 2019, the District Court registered the change of the name of Transtech Usługi Sprzętowe i Transportowe Sp. z o.o. to Grupa Azoty Transtech Sp. z o.o. (pursuant to a resolution of the Extraordinary General Meeting).

Merger of Koncept Sp. z o.o. and Prozap Sp. z o.o.

On August 30th 2019, the management boards of Koncept Sp. z o.o. and Prozap Sp. z o.o. agreed and signed a plan to merge the companies.

The merger plan, disclosed to the public on the websites of both companies as of August 30th 2019, envisages that:

- the merger will be effected pursuant to Art. 492.1.1 of the Commercial Companies Code (merger by acquisition), i.e. by transferring all the assets of Koncept Sp. z o.o. (the acquiree) to Prozap Sp. z o.o. (the acquirer),
- at the same time, the acquirer's share capital will be increased by PLN 65.5 thousand by creating new shares which will be issued by the acquirer to the shareholders of the acquiree, in accordance with the exchange ratio defined in the merger plan,
- the merger will require a resolution of the General Meeting of each of the merging companies, approving the merger plan and proposed amendments to the Articles of Association of Prozap Sp. z o.o.,
- Prozap Sp. z o.o. will assume all rights and obligations of Koncept Sp. z o.o.,
- the merger will be effected on the date of registration of the merger in the National Court Register entry maintained for the acquirer,
- Koncept Sp. z o.o. will be dissolved, without conducting liquidation proceedings, on the date of its deletion from the business register of the National Court Register.

On October 7th 2019, Koncept Sp. z o.o. received a decision of the court to include the merger plan in the company's registration files. At the same time, at the request of Prozap Sp. z o.o., the District Court issued a decision to include the merger plan in the company's registration files and appoint an auditor to examine the correctness and reliability of the merger plan.

On December 19th 2019, an Extraordinary General Meeting of Koncept Sp. z o.o., and on December 20th 2019 - an Extraordinary General Meeting of Prozap Sp. z o.o. passed resolutions to merge the companies. The merger was entered with the National Court Register on January 29th 2020.

Following the merger, Grupa Azoty POLICE received, in exchange for 1,023 shares in Koncept Sp. z o.o., 131 shares in Prozap Sp. z o.o.

Following the merger, Grupa Azoty PUŁAWY and Grupa Azoty POLICE hold, respectively, 78.46% and 7.35% of shares in Prozap Sp. z o.o.

Cancellation of Remzap Sp. z o.o. shares

On September 30th 2019, 15 shares in REMZAP Sp. z o.o. were cancelled following the death of its shareholders. As a result, the percentage of total voting rights at the General Meeting of PROZAP Sp. z o.o. held by Grupa Azoty PUŁAWY increased from 96.33% to 96.39%.

On October 31st 2019, 117 shares in REMZAP Sp. z o.o. held by former employees of the company were cancelled. As a result, the percentage of total voting rights at the company's General Meeting increased to 96.83% (from 96.39%).

Change of name of PDH Polska S.A. to Grupa Azoty Polyolefins S.A.

On October 8th 2019, the District Court registered the change of name of PDH Polska S.A. In accordance with the resolution of the company's Extraordinary General Meeting of September 30th 2019, the new name of the company is Grupa Azoty Polyolefins Spółka Akcyjna.

Share capital increase at Grupa Azoty Compounding Sp. z o.o.

On October 28th 2019, the Extraordinary General Meeting of Grupa Azoty Compounding Sp. z o.o. passed a resolution to increase the share capital from PLN 36,000,000 to PLN 72,007,700, i.e. by PLN 36,007,700, through the creation of 360,077 new shares with a par value of PLN 100 per share, which will be acquired by the sole shareholder - the Parent:

- 190,000 shares with a par value of PLN 100 per share, for PLN 19,000,000 in cash,
- 170,077 shares with a par value of PLN 100 per share, for a non-cash contribution of PLN 17,007,740.

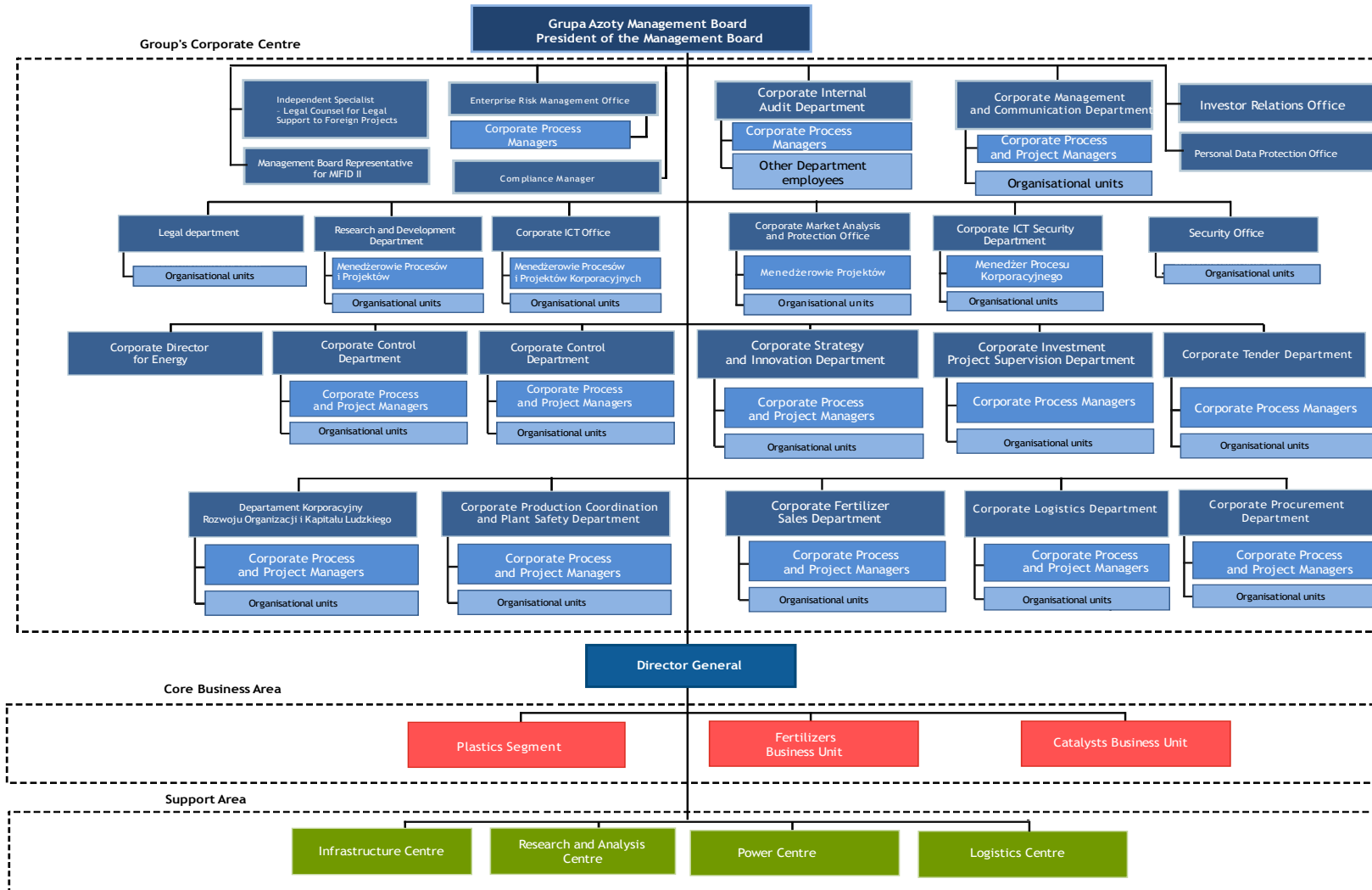
The share capital increase was registered on December 9th 2019.

Grupa Azoty Folie Sp. z o.o. put into liquidation

On December 31st 2019, an Extraordinary General Meeting of Grupa Azoty Folie Sp. z o.o. passed a resolution to dissolve the company and put it into liquidation.

2. Management policy

2.1. Parent's organisational chart



Source: Company data.

2.2. Changes in key management policies

In 2019, the Articles of Association of the Grupa Azoty Group companies were amended to bring them in line with the provisions of the Act of February 21st 2019 Amending the Act on State Property Management and Certain Other Acts (Dz.U. of 2019, item 492). The amendments included in particular:

- redefinition of the powers of the Parent's corporate bodies with respect to granting consent to acquisition, sale and disposal of the Parent's assets;
- introduction of the obligation to take steps to remove from the Supervisory Board a member designated by the body or entity referred to in Art. 25.1.1-5 of the Act on State Property Management of December 16th 2016 if the member does not meet the requirements set out in Art. 19.1-3 and Art. 19.5 of the Act;
- granting the Parent the right to sell non-current assets with a market value exceeding 0.1% of the Parent's total assets by way of an auction.

At the same time, modified rules for disposal of non-current assets were implemented at the Grupa Azoty Group companies, taking into account the changes introduced by the Act Amending the Act on State Property Management and Certain Other Acts of February 21st 2019, which introduced, in addition to a tender, an auction to dispose of non-current assets and the market value of non-current assets for disposal.

In addition, the Grupa Azoty Group companies amended the rules of remuneration for Supervisory Board members to implement the provisions of the Act on Special Solutions to be Applied in the Implementation of the 2019 Budget Act (Dz.U. of 2018, item 2435), as described in Letter DSKP. WŁK.270.1.2019 of the Head of the State Treasury Department of the Chancellery of the Prime Minister, dated January 28th 2019. Under the amended rules, the basis for determining the fixed remuneration of members of corporate bodies should be the average monthly remuneration in the business sector, net of profit distributions in Q4 2016. For the avoidance of doubt as to the interpretation of the remuneration base for the Supervisory Boards of subsidiaries for a given year, a fixed remuneration was introduced, in an amount calculated based on the Act on Rules of Remunerating Persons Who Manage Certain Companies of June 9th 2016 (Dz.U. of 2016, item 1202, as amended), i.e. equal to the product of the current ratio and the base for 2016 (as determined in accordance with the Act on Special Solutions to be Applied in the implementation of the 2019 Budget Act).

2.3. Workforce

Number of employees at the Group

Employee group	as at Dec 31 2019		as at Dec 31 2018	
	Women	Men	Women	Men
blue collar employees	1,307	8,554	1,315	8,572
white collar employees	2,342	3,406	2,282	3,361
Total	3,649	11,960	3,597	11,933
Total – the Group	15,609		15,530	

Number of employees at the Parent

Employee group	as at Dec 31 2019		as at Dec 31 2018	
	Women	Men	Women	Men
blue collar employees	293	1,046	292	1,065
white collar employees	365	488	355	488
Total	658	1,534	647	1,553
Total – the Parent	2,192		2,200	

Number of employees at consolidated subsidiaries

Employee group	as at Dec 31 2019		as at Dec 31 2018	
	Women	Men	Women	Men
blue collar employees	1,014	7,508	1,023	7,515
white collar employees	1,977	2,918	1,927	2,865
Total	2,991	10,426	2,950	10,380
Total – subsidiaries	13,417		13,330	

Number of employees at the Group: average for the year and as at the end of 2019

Employee group	average annual		as at Dec 31 2019	
	Women	Men	Women	Men
blue collar employees	1,324.8	8,585.3	1,307	8,554
white collar employees	2,308.1	3,388.2	2,342	3,406
Total	3,632.9	11,973.5	3,649	11,960

Number of employees at the Parent: average for the year and as at the end of 2019

Employee group	average annual		as at Dec 31 2019	
	Women	Men	Women	Men
blue collar employees	298.2	1,067.7	293	1,046
white collar employees	361.7	487.9	365	488
Total	659.9	1,555.6	658	1,534

Number of employees at consolidated subsidiaries: average for the year and as at the end of 2019

Employee group	average annual		as at Dec 31 2019	
	Women	Men	Women	Men
blue collar employees	1,026.5	7,517.7	1,014	7,508
white collar employees	1,946.4	2,900.3	1,977	2,918
Total	2,972.9	10,418.0	2,991	10,426

Employee turnover at the Grupa Azoty Group

	2019	
	Women	Men
New hires	272	864
Terminations	216	795

Employee turnover at the Parent

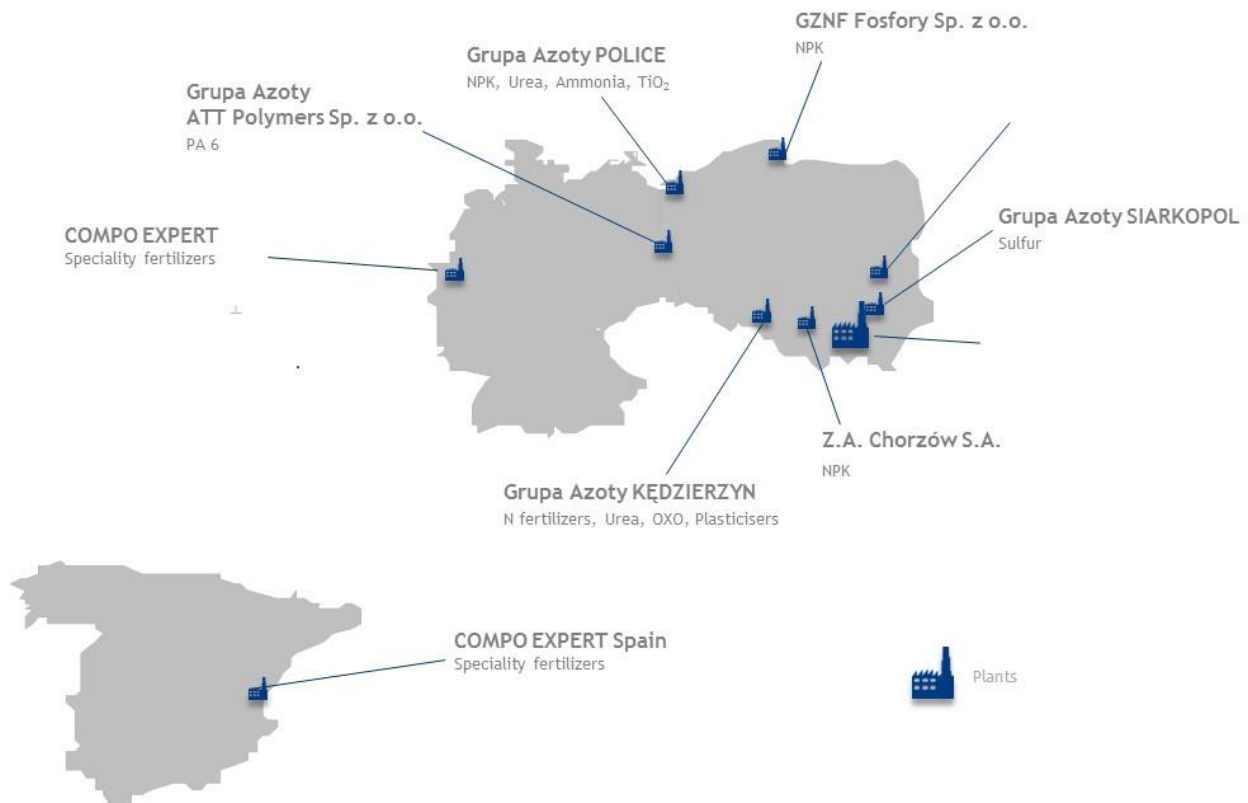
	2019	
	Women	Men
New hires	32	106
Terminations	22	119

3. Business overview

3.1. Business segments

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

Grupa Azoty - core business areas



Source: Company data.

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

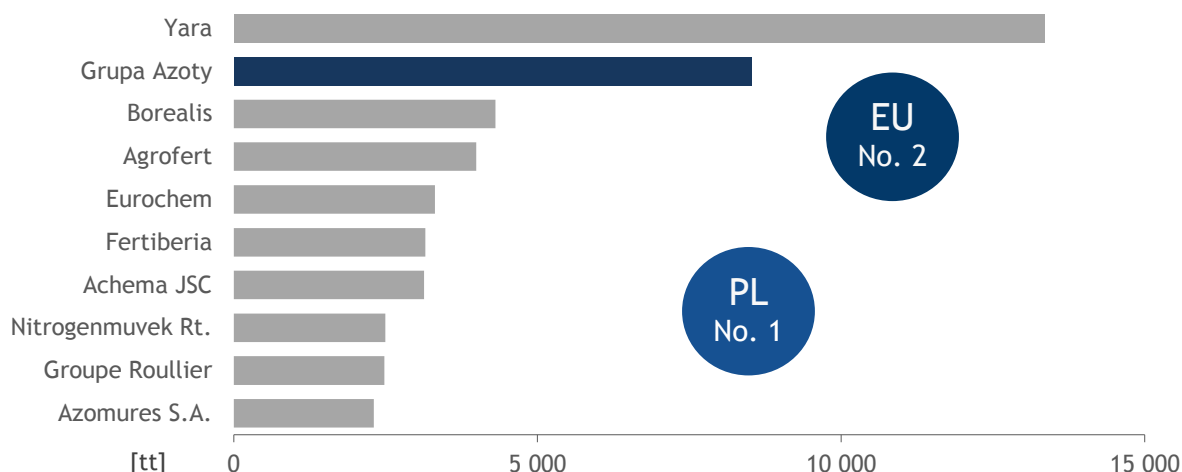
- Agro Fertilizers,
- Plastics,
- Chemicals,
- Energy,
- Other Activities.

Agro Fertilizers

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

The segment's manufacturing activities are conducted by the companies based in Tarnów (the Parent), Puławy, Kędzierzyn, Police, Gdańsk, Chorzów, as well as Germany and Spain. The Group is Poland's largest and European Union's second largest manufacturer of mineral fertilizers.

Grupa Azoty Group's production capacities vs competition (mineral fertilizers)

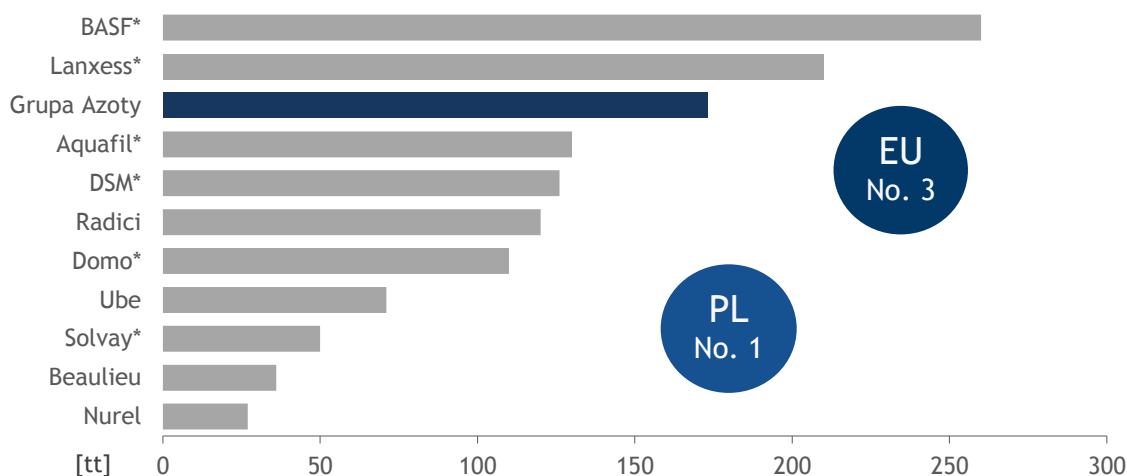


Plastics

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 PA6 in Poland and the third largest producer of this polyamide in the European Union.

Grupa Azoty Group's production capacities vs competition (Polyamide 6)

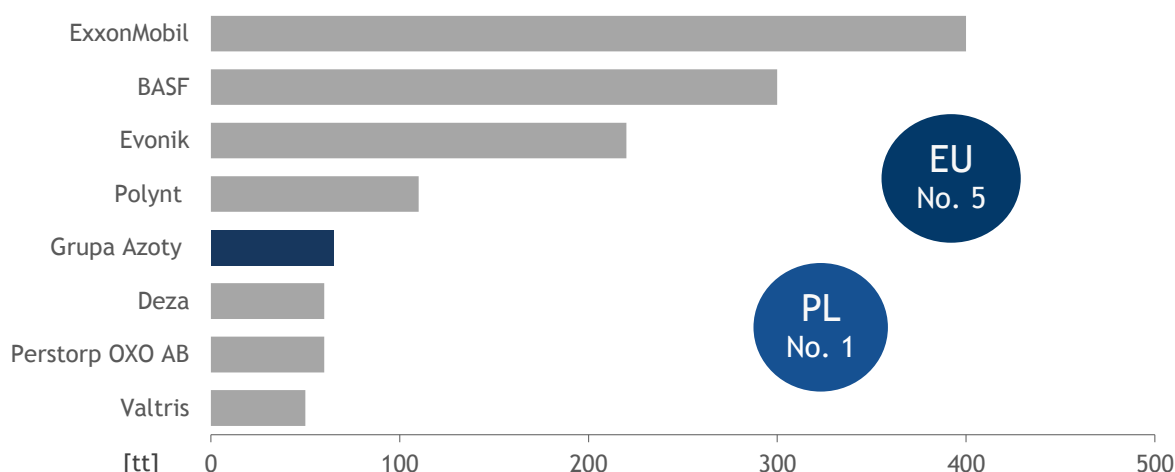


Source: PCI Nylon 2018.

Chemicals

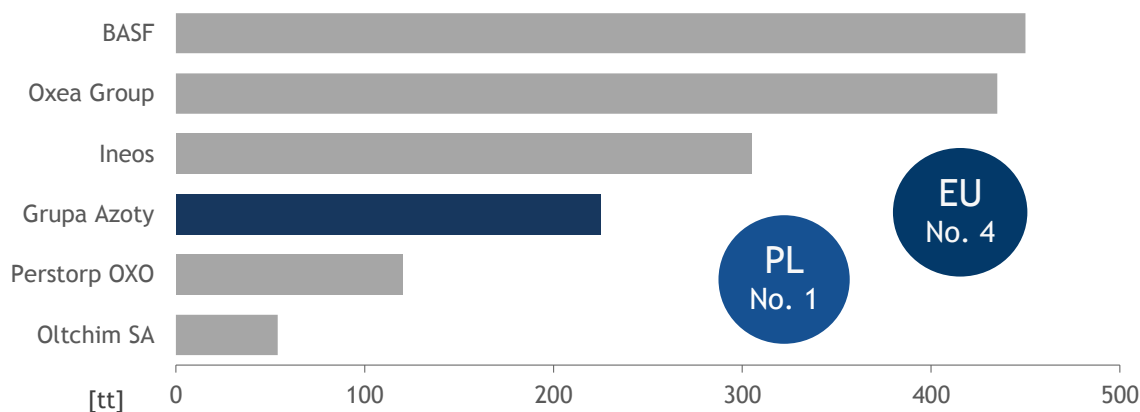
The Chemicals segment is an important part of the Group's business, comprising OXO alcohols, plasticizers, melamine, technical grade urea, titanium white, sulfur, AdBlue®, and other products. They are manufactured in Kędzierzyn, Puławy, Police, and Grzybów. The Group is a major manufacturer of melamine 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. The Group is Poland's only producer of titanium white.

Grupa Azoty Group's production capacities vs competition (Plasticizers)



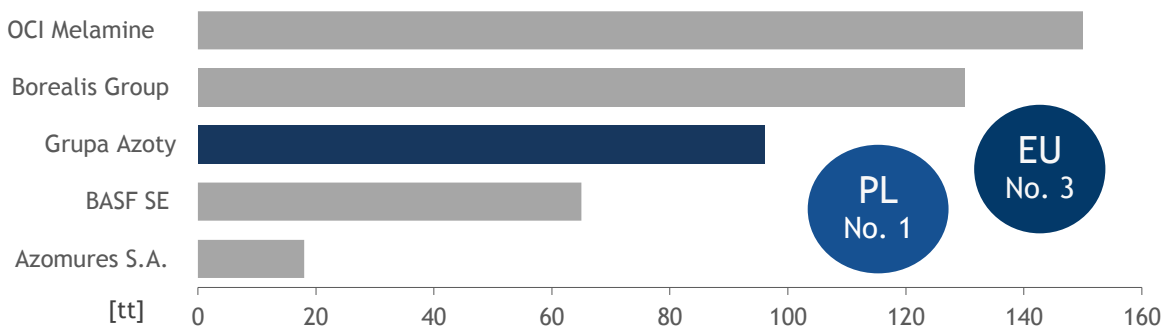
Source: CEH 2018.

Grupa Azoty Group's production capacities vs competition (OXO)



Source: CEH 2018.

Grupa Azoty Group's production capacities vs competition (Melamine)



Source: CEH 2018.

Energy

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

The segment's key customers are companies of the Group. 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 (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-nutrient) fertilizers and compound fertilizers, the latter including at least two of the following key nutrients: nitrogen (N), phosphorus (P) or potassium (K), as well as speciality 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 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.
- Ammonium sulfate, marketed under the trade names AS 21 and Pulsar®, 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. 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.

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.

Speciality fertilizers are designed to meet the specific requirements of various sectors, including fruit and vegetable growing, horticulture or maintenance of green areas. In addition to the primary components – nitrogen (N), phosphorous (P) and potassium (K), such fertilizers also contain secondary nutrients and microelements. They may also contain inhibitors that reduce nutrient leaching.

Available in solid (coated or uncoated) or in liquid form, this product range also includes fertigation and foliar fertilizers.

Currently, they are marketed under a number of trade names, including Blaukorn[®], NovaTec[®], Hakaphos[®], Basfoliar[®], Easygreen[®], DuraTec[®], Basacote[®] and Floranid^{®Twin}.

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.

CHEMICALS

OXO products

OXO alcohols manufactured by the Grupa Azoty Group: 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 is also applied as a solvent for vegetable oils, animal fats, resins, waxes and petrochemicals.

Plasticisers manufactured by the Grupa Azoty Group:

- DEHT/DOTP - a plasticizer used in the chemical industry to increase the plasticity of materials, mainly PVC, and as an additive to paints and varnishes. 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.
- DBTP/DBT - a plasticizer characterised by quick plastification of polymers and low migration, giving higher flexibility to finished products. Due to these properties, DBTP/DBT is used in the production of PVC flooring as a functional plasticizer in combination with Oxoviflex[®], as well as in the production of adhesives, seals, and inks. The Group's DBTP/DBT is marketed under the Oxovilen[®] brand.
- DEHA/DOA - a high quality bis(2-ethylhexyl) adipate which is recommended for the manufacture of food contact materials (particularly PVC food wrapping film) due to its very good plastifying properties and the fact that it maintains its properties in low-temperature applications and has a safe toxicological profile. The Group markets its DEHA/DOA under the Adoflex[®] brand. The product is also used in the manufacture of garden hoses, cables and coated fabrics. Depending on the application, it may be used as the main plasticizer or a functional plasticizer in combination with Oxoviflex[®]. Besides its application in PCV processing, Adoflex[®] is also recommended as a solvent for the cosmetics industry, for use in nitrocellulose and synthetic rubber plasticisation, and in the manufacturing of lacquers.

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

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.

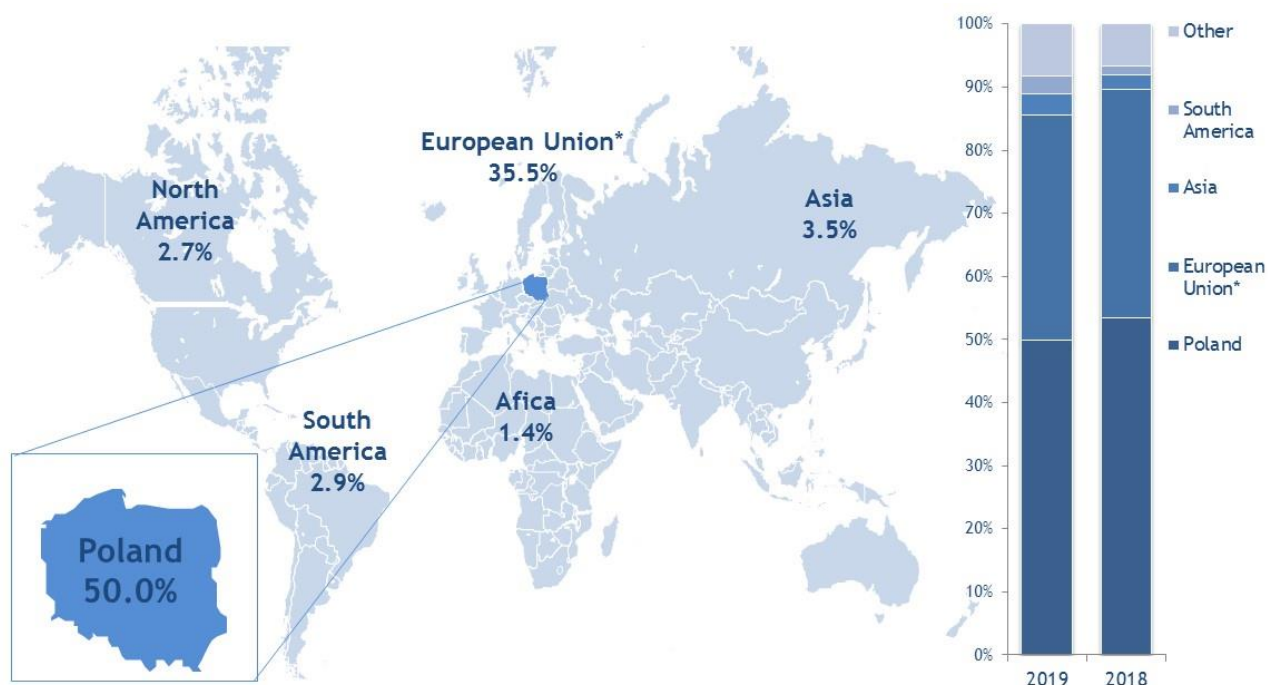
Polyamide 6 (PA6) is a high-quality thermoplastic in granular form used for injection processing. It is the leading product among engineering plastics. The Group's very popular brands in this segment are Tarnamid® and Alphalon®.

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.

3.3. Sales markets and procurement sources

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

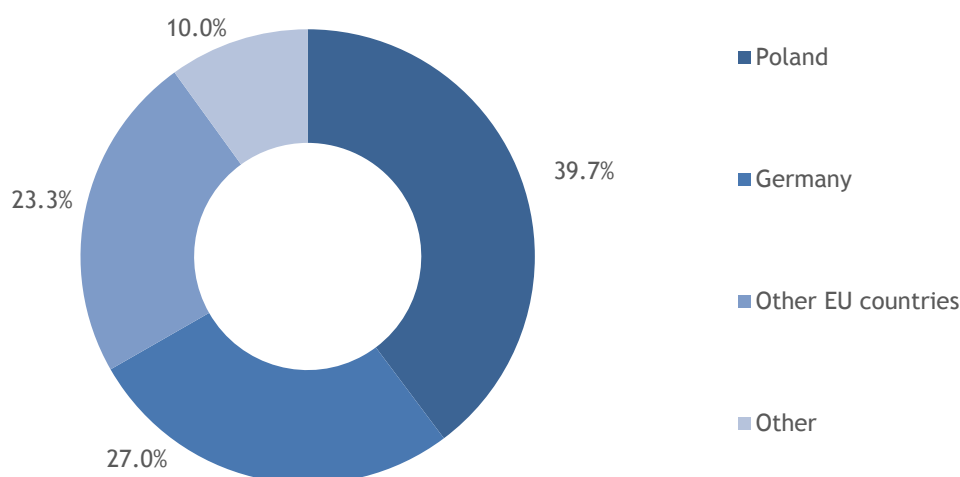
Group's sales by geographies (by revenue in 2019)



* Excluding Poland.

Source: Company data.

Parent's sales by geographies (by revenue in 2019)



Source: Company data.

In 2019, 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 (phosphate rock, slag, potassium chloride) are purchased from non-EU suppliers. Raw materials supplied by the Group companies, i.e. ammonia and to some extent sulfur, account for a significant share of the total raw materials procured by the Group.

Ammonia

The procurement strategy is based primarily on the optimisation of intragroup supplies. Intragroup supplies are transacted on arm's length terms. The Grupa Azoty 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, with a significant potential in logistics.

Having satisfied its own needs, the Group sells a surplus on the market. 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 trading with large accounts. Following a number of tenders for 2019, 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, taking advantage of economies of scale in procurement. Given the volatility of the electricity market and its changing legal framework, the Group's policy is to purchase electricity under forward contracts concluded for various periods and on the SPOT market, including on the Polish Power Exchange.

Phenol

The procurement strategy is based primarily on supplies from the domestic and the EU markets, with deliveries from outside Europe covering deficit. The Group secures phenol supplies for its own needs under long-term contracts concluded directly with Europe's largest producers. In 2019, the Grupa Azoty Group increased its internal storage capacities, thus optimising the phenol supply chain.

Phosphate rock

Phosphate rock is purchased under term contracts, 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

High-methane gas and gas from local sources was supplied by PGNiG S.A. under long-term contracts. Any additionally required volumes were bought by the Group at the Polish Power Exchange.

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), the Group is able to aggregate the supply volumes and reduce the cost of this raw material.

Potassium chloride

With substantial natural resources and competitive commercial terms, producers from the Commonwealth of Independent States (Russia, Belarus) are the primary suppliers of potassium chloride. The Group's procurement strategy is chiefly based on quarterly 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 given the transport costs and price formulae (ARA).

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.

Since 2018, the Group companies follow a strategy of purchasing coal under multi-year contracts with a guaranteed price change range. Such long-term contracts cover over 80% of the Group's needs for coal supplies.

3.4. Seasonality of operations

Seasonality of operations is seen mainly in the markets for mineral fertilizers.

Mineral fertilizers

The seasonality in the fertilizer segment in 2019 followed its usual pattern. Demand for fertilizers from the agricultural market was the highest in spring, which is natural given the nature of agricultural operations. In autumn, the demand was slightly lower. Weather conditions, the key driver of demand, were not typical in 2019. Weather conditions have a significant impact on market demand for fertilizer products. The Group follows a policy of mitigating seasonality through optimum volume allocation:

- As part of all-year supplies to the distribution network, and
- By partial sales of products on geographical markets with different seasonality patterns.

Titanium white market

Because of its chief application (as a component of paints and varnishes), titanium white is a seasonal product used in structural construction. The demand for titanium white depends on the situation on the application markets, especially the construction market. It usually starts to rise at the end of the first quarter and falls as the construction season ends in autumn.

In the case of other Grupa Azoty Group's products, seasonality does not have a material effect on the Group's performance as they represent a small proportion of total output.

3.5. Agreements, including credit facility and loan agreements, guarantees and sureties

The agreements are presented in chronological order.

In 2019 and as at the date of this Report for 2019, none of the Group companies defaulted on credit facilities or loans or breached any material covenants under credit facility or loan agreements.

3.5.1. Significant agreements

Extension of Individual Contracts with Polskie Górnictwo Naftowe i Gazownictwo S.A.

On May 23rd 2019, the Parent and its subsidiaries: Grupa Azoty PUŁAWY, Grupa Azoty POLICE, Grupa Azoty KĘDZIERZYN, Grupa Azoty SIARKOPOL (jointly the "Customers" and each separately a "Customer") submitted representations confirming the extension of the term of bilateral contracts concluded on June 21st 2017 ("Individual Contracts") to the framework agreement for gas supply signed with Polskie Górnictwo Naftowe i Gazownictwo S.A. ("GNiG") on April 13th 2016.

As a result of the representations made by the Customers, PGNiG will remain the Grupa Azoty Group's strategic gas supplier until September 30th 2022.

The total value of the Individual Contracts concluded with the Customers is estimated at more than PLN 8bn over their four-year term. The applied pricing formula is based on market gas price indices.

3.5.2. Loan agreements and annexes

Annex to the EUR Physical Cash Pooling Agreement (EUR PCP) with PKO BP

On January 31st 2019, the Parent, acting together with other Grupa Azoty Group companies, and PKO Bank Polski S.A. signed Annex 2 to the EUR Physical Cash Pooling Agreement of November 2nd 2018, as amended. Under the Annex, new Group companies (GZNF Fosfory Sp. z o.o., Grupa Azoty PKCh Sp. z o.o., Grupa Azoty Compounding Sp. z o.o., Grupa Azoty ATT Polymers GmbH, Grupa Azoty SIARKOPOL, Grupa Azoty Koltar Sp. z o.o., Agrochem Puławy Sp. z o.o., and Grupa Azoty Automatyka Sp. z o.o.) have been covered by the Agreement.

Annex to the PLN Physical Cash Pooling Agreement (PLN PCP) with PKO BP

On March 5th 2019, the Parent, acting together with other Grupa Azoty Group companies, and PKO Bank Polski S.A. signed Annex 5 to the PLN Physical Cash Pooling Agreement of September 20th 2016, as amended. Under the Annex, a new Group company (SCF Natural Sp. z o.o.) has been covered by the Agreement.

Statement by Compo Expert GmbH on joining the Payments Servicing Agreement with Banco Santander S.A.

On March 25th 2019, the subsidiary Compo Expert GmbH signed a statement on joining the Payments Servicing Agreement with Banco Santander S.A., which had been concluded on December 14th 2018 by the Parent and the Key Subsidiaries, providing for a maximum limit of PLN 250m to finance trade payables under transactions with the suppliers of the company and other Group companies.

Credit facility agreement with Commerzbank AG

On May 16th 2019, Goat BidCo GmbH and Compo Expert GmbH signed a EUR 5m credit facility agreement with Commerzbank, valid until terminated, with interest charged at 3M EURIBOR plus bank margin, without a commitment fee.

Amendments to agreements with the European Investment Bank

On May 22nd 2019, the Parent and the European Investment Bank executed Annex 2 to the Financing Agreement of May 28th 2015 and Annex 1 to the Financing Agreement of January 25th 2018, following the acquisition of Goat TopCo GmbH, on granting consent to the inclusion of Compo Expert Group's EBITDA for the entire calendar year 2018 in the calculation of Grupa Azoty Group's Debt Ratio as at December 31st 2018.

Agreement with mBank S.A. for purchase of receivables

May 27th 2019 saw the termination of the agreement for purchase of receivables of up to EUR 21m from Grupa Azoty ATT Polymers GmbH, concluded between the Parent and mBank S.A. on September 27th 2017.

Debt purchase agreement with ING BSK S.A.

On June 10th 2019, the Parent and ING BSK S.A. executed A debt purchase agreement for up to EUR 25m in order to refinance the terminated agreement with mBank for electronic purchase of receivables from Grupa Azoty ATT Polymers GmbH, with a final date of September 30th 2030.

Renewal of a credit facility with Banco Sabadell

On June 14th 2019, Compo Expert Spain S.L. renewed the existing EUR 3m credit facility with Banco Sabadell, valid for one year and bearing interest at EURIBOR plus bank margin, with no commitment fee charged.

Factoring agreement with BNP Paribas Factor GmbH

On July 25th 2019, COMPO EXPERT GmbH, COMPO EXPERT France SAS, COMPO EXPERT Spain S.L. and COMPO EXPERT Italia S.r.l. signed an agreement with BNP Factor GmbH to establish a European Factoring Programme with a credit line of up to EUR 50m. In July 2019, the first portion of COMPO EXPERT GmbH's trade receivables was sold to BNP Factor. In September 2019, a similar transaction was executed by COMPO EXPERT Italia S.r.l. The following three factoring programmes are currently in place: COMPO EXPERT GmbH with BNP Factor GmbH and Targo Factoring GmbH; COMPO EXPERT France SAS with Facto France SA; and COMPO EXPERT Italia S.r.l with BNP Factor GmbH.

Payments Servicing Agreement with Banco Santander S.A.

On September 23rd 2019, the Parent, its Key Subsidiaries and COMPO EXPERT GmbH executed an agreement amending and superseding the payments servicing agreement with Banco Santander S.A. to secure financing of trade transactions with the Parent's and other Group companies' suppliers, with a maximum limit of EUR 122m. The agreement was made for an indefinite term. As security, the Parent issued a notarised declaration of voluntary submission to enforcement with respect to its debt under the agreement amending and superseding the payments servicing agreement, for up to 120% of the financing limit provided for in the agreement, i.e. up to EUR 146.4m.

Annexes to the Physical Cash Pooling Agreement

On October 7th 2019, the Parent, acting together with other Grupa Azoty Group companies, and PKO Bank Polski S.A. signed Annex 6 to the PLN Physical Cash Pooling Agreement of September 20th 2016, as amended. Under the Annex, the interest rate was changed for the PLN Physical Cash Pooling service for the domestic Group companies.

Annex to Overdraft Facility Agreement

On November 29th 2019, Grupa Azoty PUŁAWY executed Annex 11 to the PLN 2m intraday overdraft facility agreement with Bank Pekao S.A. The annex extends the term of the facility until November 30th 2020.

Harmonising amendments to Grupa Azoty Group's loan agreements

On December 13th 2019, the Parent and the European Investment Bank executed Annex 3 to the Financing Agreement of May 28th 2015 as amended and Annex 2 to the Financing Agreement of January 25th 2018.

On December 16th 2019, the Parent and PKO BP S.A., Bank Gospodarstwa Krajowego, Santander Bank Polska S.A. (former Bank Zachodni WBK S.A.), and ING Bank Śląski S.A. signed the 2nd agreement amending and restating the credit facility agreement of April 23rd 2015, amended by the amending and restating agreement of June 29th 2018.

On December 18th 2019, the Parent, together with Grupa Azoty Group companies, and PKO Bank Polski S.A. executed Annex 5 to the multi-purpose credit facility agreement of April 23rd 2015 (as amended).

On December 18th 2019, the Parent, together with Grupa Azoty Group companies, and PKO Bank Polski S.A. executed Annex 16 to the overdraft facility agreement of October 1st 2010 (as amended).

The annexes and amending agreements were concluded to harmonise the covenants contained in Grupa Azoty Group's credit facility agreements with the negotiated terms and conditions of the financing being arranged for the Polimery Police project.

Credit facility extension

In December 2019, COMPO EXPERT Spain extended the existing EUR 1,500 thousand credit facility with BVBA (Banco Bilbao), with a EURIBOR interest rate plus bank margin.

3.5.3. Commercial contracts

Potassium chloride purchase contract

On January 24th 2019, Grupa Azoty POLICE, a subsidiary of the Parent, and JSC Belarusian Potash Company of Minsk, Belarus, executed a potassium chloride purchase contract.

The value of the contract was estimated at approximately PLN 130m. The contract was concluded for a definite term from January 1st 2019 to June 30th 2019. The contract provided for the supply of potassium chloride according to an agreed delivery schedule and commercial terms.

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

Phosphate rock purchase contract

On February 5th 2019, Grupa Azoty POLICE, a subsidiary of the Parent, entered into a trilateral contract with Ameropa AG of Binningen, Switzerland (as the seller) and Somiva SA of Dakar-Yoff, Senegal (as the producer) for the purchase of low-cadmium phosphate rock sourced from Senegal.

The contract was executed for a definite period from February 1st 2019 to February 28th 2021, setting out 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 240m.

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

Urea sale agreement

On August 23rd 2019, Grupa Azoty PUŁAWY entered into a contract for sale of PULREA urea to Kronospan Mielec Sp. z o.o., Kronospan KO Sp. z o.o., Diakol Strazske S.R.O. and Dukol Ostrava S.R.O., effective from July 1st 2019 to June 30th 2023.

The contract specifies the minimum amount of the product to be delivered by Grupa Azoty Puławy thereunder. Prices will be negotiated on a monthly basis. The estimated value of the contract is approximately PLN 300m (VAT exclusive). The other terms and conditions of the contract do not differ from standard terms and conditions used in contracts of this type.

Annex to long-term agreement for supply of thermal coal

On November 20th 2019, Grupa Azoty PUŁAWY signed an annex to the long-term agreement for the supply of thermal coal executed with Lubelski Węgiel Bogdanka S.A. on January 8th 2009. The estimated value of the agreement from its execution date to December 31st 2025 totals (net of possible increases, deviations and tolerance) PLN 1,855m (VAT exclusive), of which the amount planned for 2020-2025 is PLN 844m (VAT exclusive).

Purchase of electricity

In 2019, as part of tender procedures for the Grupa Azoty Group companies and on the Polish Power Exchange, Grupa Azoty PUŁAWY purchased electricity to cover a portion of its requirement for 2020 and selected electricity suppliers for a portion of its requirement for 2020, 2021 and 2022. In 2019, PGE Obrót S.A. remained the largest supplier of electricity. The VAT-exclusive value of electricity purchases from PGE Obrót S.A. was PLN 159.2m in 2019.

3.5.4. Insurance agreements

Trade credit insurance

In January 2019, Grupa Azoty PUŁAWY and Towarzystwo Ubezpieczeń Euler Hermes S.A. (TUEH) signed trade credit risk insurance contracts for the period from February 1st 2019 to January 31st 2020. The contracts cover global sale receivables, with the exception of receivables from domestic sales of fertilizers.

In December 2019, the Management Board of Grupa Azoty PUŁAWY approved the renewal of the contracts with TUEH, for the period from February 1st 2020 to January 31st 2021. The expected total value of receivables covered by the insurance will be PLN 1,432m.

Additionally, in May 2019, Grupa Azoty PUŁAWY and TUEH signed a Trade Credit Risk Insurance Contract for the period from July 1st 2019 to June 30th 2020. The insurance covers receivables arising as of June 1st 2019 from domestic sales of fertilizers. The expected total value of receivables covered by the insurance is PLN 1bn.

Consolidated Group Insurance Programme with TOW PZUW

On February 28th 2019, the Grupa Azoty Group companies included in the Grupa Azoty Mutual Insurance Union operating within TOW PZUW executed with TOW PZUW a new Master Agreement for the Consolidated Property Insurance Programme for a period of three years, i.e. from March 1st 2019 to February 28th 2022, under which policies were issued for the first year, i.e. from March 1st 2019 to February 28th 2020, covering the following lines of insurance:

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

On June 28th 2019, the Grupa Azoty Group companies included in the Grupa Azoty Mutual Insurance Union operating within TOW PZUW executed with TOW PZUW:

- Property in national and international transit insurance (CARGO) master agreement, for a period of three years, i.e. from July 1st 2019 to June 30th 2022, under which a policy for the first annual insurance period has been issued,
- Contractors/erection all risks (CAR/EAR) insurance master agreement, for a period of three years, i.e. from July 1st 2019 to June 30th 2022,
- Business and property owner's liability insurance (OC) master agreement, for a period of two years, i.e. from July 1st 2019 to June 30th 2021, under which a policy for the first annual insurance period has been issued.

Trade credit insurance

On July 12th 2019 (Grupa Azoty KĘDZIERZYN) and July 29th 2019 (the Parent with coinsurance for Grupa Azoty SIARKOPOL, Zakłady Azotowe Chorzów S.A., GNZF Fosfory Sp. z o.o., Agrochem Puławy Sp. z o.o. and the following companies newly included in coinsurance: Grupa Azoty Compounding Sp. z o.o. and Grupa Azoty KOLTAR Sp. z o.o.), trade credit insurance policies taken out from Korporacja Ubezpieczeń Kredytów Eksportowych S.A. and providing global cover for these companies' receivables, were renewed for the period from August 1st 2019 to July 31st 2021.

Insurance of environmental risks

On August 1st 2019, the Parent, Grupa Azoty KĘDZIERZYN, Grupa Azoty POLICE and Grupa Azoty PUŁAWY concluded an environmental liability insurance agreement with the Polish Branch of Colonnade Insurance Societe Anonyme, for the period from August 1st 2019 to July 31st 2020.

D&O insurance

On September 17th 2019, the Parent signed Annex 1 to the directors and officers (D&O) liability insurance agreement with Powszechny Zakład Ubezpieczeń S.A. (providing insurance cover also to the other Group companies). The annex extended the existing insurance cover for the period September 17th 2019 - March 16th 2020. The total sum insured is PLN 200m.

Automobile Insurance

On December 18th 2019, the Grupa Azoty Group companies forming the Mutual Insurance Union concluded a motor insurance master agreement with Towarzystwo Ubezpieczeń Wzajemnych PZUW, effective from January 1st 2020 to December 31st 2020, with an option to renew it for another year.

3.5.5. Project co-financing agreements

- On January 31st 2019, Grupa Azoty PUŁAWY and the Ministry of Investments and Development signed an agreement for co-financing of the 'Strengthening GA Zakłady Azotowe Puławy S.A.'s R&D&I potential' project under the Smart Growth Operational Programme. Total co-financing granted to Grupa Azoty PUŁAWY is PLN 20.6m.
- On March 12th 2019, Grupa Azoty PUŁAWY and the National Centre for Research and Development signed an agreement for co-financing of the 'Development of a technology for the production of liquid fertilizers based on phosphorous bearing materials of sedimentary origin' project, implemented in a consortium with Grupa Azoty POLICE. Total co-financing granted to the consortium is PLN 7.4m.
- The Parent received:
 - on June 3rd 2019 - a co-financing tranche of PLN 3,757 thousand,
 - on September 2nd 2019 - a co-financing tranche of PLN 2,073 thousand,
 - on November 4th 2019 - a co-financing tranche of PLN 1,188 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.

3.5.6. Other agreements

In December 2019, Grupa Azoty KĘDZIERZYN entered into a contract with Hidrofil Water Treatment Ltd. to carry out the project "Making production of demineralised water independent of variable salinity of the Oder River and increasing the ability to produce special waters in the units, on an EPC basis. The contract amount is PLN 102m.

3.5.7. Agreements between the Grupa Azoty Group companies

Loan agreements

Intragroup financing agreement

Acting under the Intragroup Financing Agreement of April 23rd 2015, as amended:

- on February 25th 2019, the Parent disbursed to Grupa Azoty KĘDZIERZYN another tranche, of PLN 8,430 thousand, of the loan to finance the 'Raw gas compressor (GHH)' project,
- on March 28th 2019, the Parent disbursed to Grupa Azoty KĘDZIERZYN tranches of, respectively, PLN 5,500 thousand and PLN 4,300 thousand, of the loan to finance projects implemented at the Fertilizers Production Unit and the Oxoplast Business Unit,
- on April 15th 2019, the Parent disbursed to Grupa Azoty KĘDZIERZYN a tranche of PLN 4,380 thousand of the loan to finance projects implemented at the Fertilizers Production Unit,
- on May 27th 2019, the Parent disbursed to Grupa Azoty KĘDZIERZYN another tranche, of PLN 10,000 thousand, of the loan to finance the 'Upgrade of the synthesis gas compression unit supplying the Ammonia Plant' project,
- on May 27th 2019, the Parent disbursed to Grupa Azoty KĘDZIERZYN another tranche, of PLN 4,500 thousand, of the loan to finance the 'Upgrade of partial combustion unit at Ammonia Department' project,
- on May 27th 2019, the Parent disbursed to Grupa Azoty KĘDZIERZYN another tranche, of PLN 3,150 thousand, of the loan to finance the investment project 'Adaptation of the continuous FDO unit to periodic production of Oxoviflex' at the Oxoplast Business Unit,
- on October 4th 2019, the Parent disbursed to Grupa Azoty KĘDZIERZYN another tranche, of PLN 12m, of the loan to finance the investment project 'Upgrade of synthesis gas compression unit supplying Ammonia Plant',
- on October 4th 2019, the Parent disbursed to Grupa Azoty KĘDZIERZYN another tranche, of PLN 7.5m, of the loan to finance the 'Raw gas compressor (GHH)' project,
- on October 4th 2019, the Parent disbursed to Grupa Azoty KĘDZIERZYN another tranche, of PLN 4.5m, of the loan to finance the operations of the Fertilizers Business Unit,
- on October 4th 2019, the Parent disbursed to Grupa Azoty KĘDZIERZYN another tranche, of PLN 1.9m, of the loan to finance the 'Adaptation of the continuous FDO unit to periodic production of Oxoviflex' project.

The loans bear interest at a variable rate based on 1M WIBOR plus margin.

Agreements concluded after the reporting date

Intragroup financing agreement

Under the Intra-Group Financing Agreement of April 23rd 2015, as amended, on January 27th 2020 the Parent disbursed to Grupa Azoty KĘDZIERZYN another tranche, of PLN 19,400 thousand, of the loan for the Fertilizers Unit at Grupa Azoty KĘDZIERZYN.

Loan agreement

On January 8th 2020, a loan agreement was signed under which Grupa Azoty PUŁAWY advanced a PLN 5m loan to Zakłady Azotowe Chorzów S.A. The agreement provides for the disbursement of the loan in five tranches available until May 5th 2020. The loan bears interest at a variable rate based on 1M WIBOR plus margin. The disbursement of each tranche will be subject to a separate decision of the Lender. The loan is to be repaid in five instalments, from January 2021 to May 2021. On January 13th 2020, the first tranche of the loan, of PLN 1.3m, was disbursed.

3.5.8. Sureties and guarantees

Material sureties issued

On August 2nd 2019, the Parent and Grupa Azoty POLICE issued a guarantee (the Parent for up to EUR 10,340 thousand, and Grupa Azoty POLICE for up to EUR 11,660 thousand) to Hyundai Engineering Co., Ltd. The guarantees were issued to protect the beneficiary of the guarantee from the risk of incurring losses which may result from ordering equipment with long delivery times. The guarantees were effective until the earlier of Grupa Azoty POLYOLEFINS issuing a full notice to proceed or December 30th 2019. The guarantees expired on December 23rd 2019, i.e. on the date when Grupa Azoty POLYOLEFINS issued a full notice to proceed.

Sureties received

Material sureties received

Entity requesting the surety	Total surety amount	Date of issue	Expiry date
DANSK LANDBRUGS GROVVARESELSKA A.M.B.A Dania Denmark	PLN 12,776 thousand (EUR 3,000 thousand)	Apr 1 2019	Oct 31 2019
Valtris Specialty Chemicals Limited UK	PLN 6,388 thousand (EUR 1,500 thousand)	Dec 5 2019	Sep 15 2020
Eurenco SA	PLN 8,517 thousand (EUR 2,000 thousand)	Jun 1 2019	May 31 2020
Synthomer plc UK	PLN 6,388 thousand (EUR 1,500 thousand)	Dec 19 2019	Dec 31 2020

Source: Company data.

The total amount of all sureties received by the Grupa Azoty Group companies in 2019 was PLN 41,390 thousand, including:

- with a unit value of up to PLN 500 thousand - PLN 945 thousand,
- with a unit value above PLN 500 thousand - PLN 40,445 thousand.

Guarantees

Guarantees provided

The total amount of all guarantees issued at the request of the Grupa Azoty Group companies in the reporting period was PLN 23,064 thousand.

Corporate guarantees provided in 2019 and effective as at December 31st 2019

Secured debtor	Entity providing corporate guarantee	Guarantee recipient	Total guarantee amount (EUR '000)	Provision date	Expiry date	Type
COMPO EXPERT Austria GmbH	COMPO EXPERT International	Porsche Bank AG	EUR 35 thousand	Aug 14 2019	Aug 5 2022	Security for lease contract
COMPO EXPERT GmbH	COMPO EXPERT International	Banco Santander S.A.	EUR 5,000 thousand	Sep 16 2019	until revoked	Security for credit facility
COMPO EXPERT Brasil Fertilizantes Ltda.	COMPO EXPERT International	Banco Santander S.A.	EUR 5,000 thousand	Dec 16 2019	until revoked	Security for credit facility

Source: Company data.

Material guarantees provided

Guarantee recipient	Total guarantee amount (PLN '000)	Provision date	Expiry date	Financial terms
GAZ-SYSTEM	3,000	May 30 2019	Aug 30 2019	Security Deposit Agreement
MPEC Sp. z o.o. Olsztyn	3,380	Oct 1 2019	Sep 30 2021	Insurance guarantee - performance bond

Source: Company data.

Guarantees received

The total amount of all guarantees received by the Grupa Azoty Group companies in the reporting year was PLN 552,770 thousand, including

- with a value of up to PLN 500 thousand - PLN 46,648 thousand,
- with a value above PLN 500 thousand - PLN 506,123 thousand.

Material guarantees received

Entity requesting the guarantee	Total guarantee amount (PLN '000)	Provision date	Expiry date
Hyundai Engineering	380,203 (EUR 89,281 thousand)	Dec 10 2019	Mar 31 2023
Siemens Sp. z o.o. Warsaw	8,510	Apr 29 2019	Sep 30 2019
Siemens Sp. z o.o. Warsaw	7,465 (EUR 1,753 thousand)	Dec 13 2019	Jun 7 2021
Consortium of Torpol Oil&Gas Sp. z o.o. Przeźmierowo Torpol S.A. Poznań	6,734	Apr 10 2019	Sep 14 2020
Siemens Sp. z o.o. Warsaw	5,673	Aug 27 2019	Oct 31 2019
SIEMENS s.r.o.	5,262	Oct 3 2019	Dec 23 2020
Siemens Sp. z o.o. Warsaw	4,672 (EUR 1,097 thousand)	Nov 20 2019	Jul 30 2021
ERBUD INDUSTRY Sp. z o.o.	4,300	Dec 19 2019	Mar 31 2020
Haldor Topsoe Denmark	3,834 (EUR 900 thousand)	Apr 5 2019	Jun 6 2020
Siemens Sp. z o.o. Warsaw	3,733 (EUR 876 thousand)	Dec 11 2019	Sep 20 2021
MAN Diesel&Turbo SE	3,373 (EUR 792 thousand)	May 2 2019	May 31 2022
Consortium of Torpol Oil&Gas Sp. z o.o. Przeźmierowo and Torpol S.A. Poznań	3,152	Dec 13 2019	Mar 26 2021
PLINKE GMBH	3,087 (EUR 725 thousand)	Nov 5 2019	Oct 31 2020
Consortium of Torpol Oil&Gas Sp. z o.o. Przeźmierowo and Torpol S.A. Poznań	3,020	Dec 13 2019	Mar 26 2021

Entity requesting the guarantee	Total guarantee amount (PLN '000)	Provision date	Expiry date
MEZAP Sp. z o.o.	2,400	Sep 25 2019	Jan 8 2020
Bertsch Energy GmbH Austria	2,242	Aug 28 2019	Jul 14 2020
Bertsch Energy GmbH Austria	2,242	Dec 13 2019	Jul 14 2020
Izotechnik Sp. z o.o. Płock	2,214	Oct 31 2019	Sep 14 2020
Top Farms Głubczyce Sp. z o.o.	2,000	Sep 12 2019	Apr 30 2020
Top Farms Głubczyce Sp. z o.o.	2,000	Oct 17 2019	May 31 2020

Source: Company data.

Letters of credit

On March 13th 2019, under a letter of credit issued on September 11th 2018 by PKO BP S.A. at the instruction of Grupa Azoty PUŁAWY, within the framework of a multi-purpose credit facility agreement, EUR 1,056 thousand was paid to the supplier of drum equipment for the mechanical granulation unit. As at December 31st 2019, the outstanding credit balance under the letter of credit was EUR 0.

In April 2019, PKO BP S.A. extended the validity of the EUR 2,040 thousand import letter of credit issued at the request of Grupa Azoty PUŁAWY by three months, i.e. to July 5th 2019. The beneficiary of the letter of credit is the vendor of a CO₂ condensation and purification unit. The letter of credit was issued under the multi-purpose credit facility agreement concluded with PKO BP S.A. As at December 31st 2019, the outstanding credit balance under the letter of credit was EUR 0.

On April 9th 2019, EUR 94 thousand was paid under the letter of credit issued by PKO BP S.A. at the request of Grupa Azoty PUŁAWY for the amount of EUR 1,414.5 thousand. The beneficiary of the letter of credit was the supplier of equipment for the nitric acid neutralisation unit. The letter of credit was issued under the multi-purpose credit facility agreement concluded with PKO BP S.A. As at December 31st 2019, the outstanding credit balance under the letter of credit was EUR 0.

On April 29th 2019, at the request of Grupa Azoty KĘDZIERZYN, PKO BP S.A. issued a EUR 2,251 thousand letter of credit under the multi-purpose credit facility agreement. The letter of credit is to secure the equipment to be delivered under an agreement with a supplier and is valid until November 30th 2020. As at December 31st 2019, the outstanding credit balance under the letter of credit was EUR 0.

On July 22nd 2019, upon instruction from Grupa Azoty PUŁAWY, PKO BP S.A. issued a EUR 299.6 thousand import letter of credit for the period until December 31st 2019. The beneficiary was the supplier of a dolomite powder pneumatic conveying system. The letter of credit was issued under the multi-purpose credit facility agreement concluded with PKO BP S.A. As at December 31st 2019, the outstanding credit balance under the letter of credit was EUR 0.

On July 30th 2019, EUR 2,535 thousand was paid under the letter of credit issued for the amount of EUR 19,012 thousand by PKO BP S.A. at the request of Grupa Azoty PUŁAWY. The beneficiary of the letter of credit was the supplier of equipment for the nitric acid neutralisation unit. On August 29th 2019, at the request of Grupa Azoty PUŁAWY, PKO BP S.A. extended the expiry date of the letter of credit from August 30th 2019 to October 31st 2019. The letter of credit was issued under the multi-purpose credit facility agreement concluded with PKO BP S.A. As at December 31st 2019, the outstanding credit balance under the letter of credit was EUR 0.

3.5.9. Agreements concluded after the reporting date

Commercial contracts

Ilmenite purchase contract

On January 9th 2020, Grupa Azoty POLICE, a subsidiary of the Parent, signed an ilmenite purchase contract with Titania AS of Hauge and Dalane of Norway. The contract was concluded for a definite term from January 1st 2020 to December 31st 2022.

The value of the deliveries to be made under the Contract is estimated at approximately PLN 168m.

3.6. Significant events

Selection of general contractor for the Polimery Police project

On March 19th 2019, the Management Board of Grupa Azoty POLYOLEFINS passed a resolution to approve/qualify Hyundai Engineering Co., Ltd. as a pre-selected bidder in the tender to award a lump-sum turn-key contract for the execution of the Polimery Police Project.

On April 18th 2019, the Management Board of Grupa Azoty POLYOLEFINS passed a resolution to finally select Hyundai Engineering Co., Ltd. as the general contractor under a tender to award a contract for turnkey execution of the Polimery Police project for a lump-sum price of EUR 992,811 thousand exclusive of VAT (basic scope).

On April 18th 2019, the Supervisory Board of Grupa Azoty POLYOLEFINS approved the conclusion of a contract with the selected general contractor.

Additionally, in connection with the implementation of the Project Grupa Azoty POLICE will be required to make capital expenditure to, *inter alia*, adapt the energy infrastructure, improve fire safety measures, and reduce the adverse environmental impact of the existing and planned units. Based on current assessment of the Grupa Azoty POLICE Management Board, the expenditure will not exceed PLN 100m.

Letters of intent and investment cooperation agreement concerning financing of the Polimery Police Project

On April 12th 2019, Grupa Azoty POLYOLEFINS received letters of intent from Korea Overseas Infrastructure & Urban Development Corporation ("KIND") and from Hyundai Engineering Co., Ltd. regarding their potential involvement in the financing of the Polimery Police Project through a contribution to the share capital of Grupa Azoty POLYOLEFINS of up to USD 50m by KIND and up to USD 80m by Hyundai Engineering Co., Ltd.

Then, on May 10th 2019, the Parent, Grupa Azoty POLICE, Grupa Azoty POLYOLEFINS on the one hand, and Hyundai Engineering Co., Ltd and KIND on the other hand signed an investment cooperation agreement providing the basis for further negotiations between the parties concerning potential involvement by Hyundai and KIND in the financing of the Polimery Police Project planned by Grupa Azoty POLYOLEFINS, by way of Hyundai and KIND acquiring new shares in, and contributing respectively up to USD 80m and USD 50m to the share capital of, Grupa Azoty POLYOLEFINS.

Letter of intent concerning financing of the Polimery Police Project

On April 26th 2019, the Parent, Grupa Azoty POLICE and Grupa Azoty POLYOLEFINS signed a letter of intent with Grupa Lotos S.A. as a starting point for negotiations of Grupa Lotos S.A.' potential involvement in the financing of the Polimery Police Project planned by Grupa Azoty POLYOLEFINS, by way of Grupa Lotos S.A. acquiring new shares in, and contributing up to PLN 500m to the share capital of, Grupa Azoty POLYOLEFINS.

General Contractor contract for the Polimery Police Project

On May 11th 2019, Grupa Azoty POLYOLEFINS and Hyundai Engineering Co., Ltd. (the "Contractor") signed a lump-sum turn-key contract for the execution of the Polimery Police Project.

The contract provides for EPC execution of the Polimery Police Project, which will consist in the construction of a new petrochemical complex in Police, comprising five sub-projects:

- propane dehydrogenation (PDH) unit,
- polypropylene production (PP) unit,
- polypropylene packaging, storage, logistics and forwarding system,
- auxiliary systems and inter-unit connections,
- handling and storage terminal with port facilities to unload and store propane and ethylene from sea ships.

The contract was signed on an Engineering, Procurement and Construction Lump Sum Turn Key (EPC LSTK) basis. Under the EPC contract, the Contractor is responsible for comprehensive execution, including design and construction, of the new Polimery Police petrochemical complex and for ensuring that the guaranteed parameters defined in licence agreements for the PDH and PP Units are achieved and maintained.

The target capacity of the PDH Unit is 400,000 tonnes of propylene with a purity of 99.6% by volume (polymer grade) per 8,000 hours, and that of the PP Unit - 400,000 tonnes of polypropylene (various grades) per 8,000 hours.

Under the contract, Grupa Azoty POLYOLEFINS may also order the execution of an optional work scope, on the terms and conditions and for the price strictly specified in the contract. The total price for the optional scope of work has been set at EUR 35,938 thousand.

The Contractor will receive lump-sum remuneration of EUR 992,811,000 exclusive of VAT (basic scope).

The Contractor's liability for any claims under the contract is limited to 30% of the remuneration. This limit does not apply to liability for non-performance or improper performance of the Contractor's obligations under the warranty, intellectual property rights and non-disclosure obligations, as well as acts or omissions due to wilful misconduct or gross negligence.

The date for the Contractor to commence performing its obligations has been set for August 1st 2019. The Polimery Police project will be commissioned on the basis of an integrity test report signed by the Parties, within forty months from the commencement date.

The total budget of the Polimery Police Project has been estimated at approximately EUR 1.5bn, of which approximately EUR 1.2bn will be capital expenditure. The balance will comprise non-capitalised costs of Grupa Azoty POLYOLEFINS operation, finance costs during the construction phase, and planned provisions for debt servicing and cost overruns, which result from applying the project finance model to finance the Polimery Police project.

Execution of an agreement on the terms of equity financing for the Polimery Police project with Hyundai Engineering Co., Ltd and Korean Overseas Infrastructure & Urban Development Corporation

On September 19th 2019, the Parent, Grupa Azoty POLICE and Grupa Azoty POLYOLEFINS (the Original Sponsors) on the one hand, and Hyundai Engineering Co., Ltd and Korean Overseas Infrastructure & Urban Development Corporation (the Joint Sponsors) on the other, signed an agreement setting the terms of equity financing for the Polimery Police project.

Under the agreement:

- The Joint Sponsors agreed to invest in the Project, directly or indirectly, the EUR equivalent of USD 130m (USD 73m to be provided by Hyundai and USD 57m to be provided by KIND) by making cash contributions to pay for shares issued as part of share capital increase at Grupa Azoty POLYOLEFINS.
- The Original Sponsors agreed to invest in the Project a total amount of up to PLN 1,400m and proceeds from the secondary public offering of Grupa Azoty POLICE shares (contingent on the results of the offering) by making cash contributions to pay for shares issued as part of share capital increase at Grupa Azoty POLYOLEFINS.

The Joint Sponsors' investment is conditional upon fulfilment of the conditions precedent stipulated in the Agreement, including the Original Sponsors contributing the total amount of their investment; Grupa Azoty POLYOLEFINS issuing a full notice to proceed under the agreement signed on May 11th 2019 by Grupa Azoty POLYOLEFINS and Hyundai Engineering Co., Ltd.; determining the final shareholding structure of Grupa Azoty POLYOLEFINS; signing a credit facility agreement as a source of debt financing for the project, and satisfaction of certain conditions precedent stipulated under debt financing documentation, as specified in the Agreement.

The Parties agreed, among other things, that the Joint Sponsors will be entitled to jointly appoint one member of the Grupa Azoty POLYOLEFINS Supervisory Board as long as they hold at least 5% of shares in Grupa Azoty POLYOLEFINS. The parties agreed that the final equity financing documents will provide for a lock-up period starting from the date when the Joint Sponsors transfer their investment amount to Grupa Azoty POLYOLEFINS and ending three years from the project completion date.

The Parties also agreed on a divestment procedure for the Joint Sponsors applicable in specified circumstances. The Agreement provides that the Original Sponsors may carry out a public offering after the expiry of the lock-up period. In addition, the Parties preliminarily agreed on a put option for the Joint Sponsors and a call option for the Original Sponsors, in each case with respect to the Grupa Azoty POLYOLEFINS shares held by the Joint Sponsors, with a total value (calculated on the basis of the price originally paid by the Joint Sponsors for the shares) of up to USD 70m, and in the case of the put option - additionally reduced by any dividends paid to the Joint Sponsors. The parties agreed that the options would expire on or before December 31st 2035.

If the parties agree with an additional investor, who may be invited to participate in financing the Project, on any rights that are more favourable than the rights granted to the Joint Sponsors under the agreement, the parties will modify the transaction documents to which the Joint Sponsors are parties so that the rights of the Joint Sponsors are aligned with the more favourable rights agreed with such additional investor.

The parties agreed that the final equity financing documents will provide for contractual penalties should the Joint Sponsors breach their obligations related to the divestment process.

The agreement is binding on the parties provided that the equity financing documents are agreed in the form satisfactory to the Joint Sponsors, the Joint Sponsors approve the terms and conditions of

the final agreement on debt financing for the Project, and the due diligence of Grupa Azoty POLYOLEFINS is completed by the Joint Sponsors with satisfactory results.

The agreement was concluded for a definite term, expiring on June 30th 2020, with an option to extend or terminate it at an earlier date, subject to the Parties' consent. The Agreement will also expire if the Parties execute final equity financing documents, which will supersede the Agreement.

Term sheet signed with Grupa LOTOS S.A.

December 13th 2019 saw the execution of an initial term sheet concerning the terms and conditions of equity investment and financing of the Polimery Police Project between the Parent, Grupa Azoty POLICE and Grupa Azoty POLYOLEFINS on the one hand, and Grupa LOTOS S.A. on the other.

Under the term sheet:

- Grupa LOTOS S.A. agreed to invest in the Project a total amount of PLN 500m (comprising a cash contribution of up to PLN 300m to cover the increased share capital of Grupa Azoty POLYOLEFINS and a subordinated loan of up to PLN 200m),
- The Original Sponsors agreed to invest in the Project a total amount which, together with the funds already transferred, will not exceed PLN 1,400m and, additionally, proceeds from the secondary public offering of Grupa Azoty POLICE shares resulting from the purchase of new shares by investors other than the Parent by way of cash contributions to cover the increased share capital of Grupa Azoty POLYOLEFINS or by granting it subordinated loans on commercial terms.

Grupa Lotos S.A.'s investment is subject to a number of conditions precedent defined in the term sheet, including but not limited to:

- obtaining approval of Grupa Lotos S.A.'s investment in the form of a resolution of Grupa Lotos S.A. Supervisory Board;
- obtaining approval for the purchase of/subscription for Grupa Azoty POLYOLEFINS shares in the form of a resolution of Grupa Lotos S.A. Extraordinary General Meeting;
- obtaining the relevant antitrust clearance from the competent competition authority, if required.

The Parties agreed, among other things, that Grupa LOTOS S.A., as a shareholder, will have the right to:

- appoint one member of the Company's Supervisory Board,
- call a General Meeting of the Company.

The Parties further agreed that the final equity financing documents will provide for a lock-up period. The Parties also agreed on the procedure for the sale of Company shares by Grupa Lotos S.A. after the lock-up period.

The term sheet constitutes a binding obligation of the Parties, subject to fulfilment of the conditions precedent and agreement on and execution of equity financing documents (i.e. the investment agreement, shareholders' agreement, and any other documents required in connection with equity financing of Grupa Azoty Polyloefins S.A.).

The term sheet was signed for a definite term, until December 31st 2020, with the option of its extension or early termination based on an agreement between the parties or if it is unilaterally terminated by Grupa Lotos S.A. as a result of a material adverse change which affects, directly or indirectly, the Project, Grupa Azoty Polylefins S.A. or the Original Sponsors and, in any case, prevents implementation of the Project on the terms presented to Grupa Lotos S.A. by the date of execution of the term sheet.

Hyundai Engineering commenced construction of Polimery Police

On December 23rd 2019, Grupa Azoty POLYOLEFINS issued a Full Notice to Proceed to the contractor of the Polimery Police Project. Construction work started as scheduled in January 2020, and the test run of the polypropylene unit is planned to be performed in Q2 2022. Polimery Police is a project of key strategic importance for the long-term growth of the Grupa Azoty Group companies.

In an amended term sheet signed on December 23rd 2019 by the Parent, Grupa Azoty POLICE and Grupa Azoty POLYOLEFINS with Hyundai and Korea Overseas Infrastructure & Urban Development Corporation (KIND), the Parties also modified the terms of equity financing for the Project as set out in the term sheet of September 19th 2019. The term sheet does not change the amounts of Hyundai's and KIND's investments, i.e. USD 73m and USD 57m, respectively, or the total commitment of the Korean partners. The Parties modified the forms of financing as KIND decided to grant subordinated loans (USD 52m out of the total amount of USD 57m).

Execution of commitment letters

Before the date of this Report, Grupa Azoty POLYOLEFINS signed with financial institutions commitment letters confirming the submission by those institutions of offers approved by their credit committees.

The institutions financing the Project are as follows: PKO BP S.A., Bank Pekao S.A., Bank Gospodarstwa Krajowego, Alior Bank S.A., PZU S.A., Bank Ochrony Środowiska S.A., Santander Bank Polska S.A., BNP Paribas Bank Polska S.A., Europejski Bank Odbudowy i Rozwoju, mBank S.A. and Industrial and Commercial Bank of China (Europe) S.A. Polish Branch.

According to information received from Grupa Azoty POLYOLEFINS, the total amount offered by the financial institutions is sufficient to fully satisfy the subsidiary's requirement for senior debt financing.

Construction of a coal-fired power generation unit

On April 16th 2019, the Management Board of Grupa Azoty PUŁAWY passed a resolution on preliminary approval of the bid submitted by a Consortium of Polimex-Mostostal S.A., Polimex Energetyka Sp. z o.o. and SBB ENERGY S.A. in the tender procedure to select an EPC contractor for the project to construct a coal-fired power generation unit in Puławy ("Power Generation Unit"), as the basis for further steps related to the project.

On June 26th 2019, the Supervisory Board and, on July 23rd 2019, the Extraordinary General Meeting of Grupa Azoty PUŁAWY approved the budget for the project to construct the Power Generation Unit, with a total value of up to PLN 1.2bn (VAT exclusive).

On July 23rd 2019, the Management Board of Grupa Azoty PUŁAWY passed a resolution to select, as the best bid in the tender procedure to select an EPC contractor for the project to construct the Power Generation Unit, the bid submitted by the consortium comprising Polimex-Mostostal S.A., Polimex Energetyka Sp. z o.o., and SBB ENERGY S.A. (the "Consortium"), quoting a price of up to PLN 1.16bn (VAT exclusive).

On September 25th 2019, Grupa Azoty PUŁAWY and the Consortium entered into a contract for turnkey execution of the project.

The contract provides for turnkey construction of a coal-fired Power Generation Unit with a gross generation capacity of 90-100 MWe. The Power Generation Unit will be a pass-out and condensing unit with a pulverized coal boiler. The Contractor will construct a complete coal-fired generation unit, comprising all the plant and equipment necessary for combined heat and power generation.

The consortium will receive under the contract a lump-sum remuneration of PLN 1,159.9m (VAT exclusive). The project budget totals PLN 1.2bn (VAT exclusive). The other costs of the project covered by its budget (i.e. in addition to the remuneration) include costs of integration of the power generation unit with the existing plant, as well as the costs of the Contract Engineer.

As the project is to be executed on a turnkey basis, the contract covers all types of work, including construction works, procurement and services necessary for the power generation unit to achieve the required performance characteristics, guaranteed technical parameters, operating capacity and safety.

The basic period of the contractor's warranty is 24 months from the date of execution by the Company of a commissioning report for the power generation unit.

The commissioning of the power generation unit under the commissioning report signed by both parties should take place within thirty six months from the date specified by Grupa Azoty PUŁAWY in the notice to proceed.

The project will meet EU environmental standards in line with the BAT Conclusions.

Grupa Azoty KĘDZIERZYN's new power project

On June 17th 2019, the Group's Development Committee approved the assumptions of the new concept for using heat generated in the ammonia production process as an alternative to heat generation in the coal boiler system at Grupa Azoty KĘDZIERZYN.

In Q3 2019, Grupa Azoty KĘDZIERZYN launched a major project aimed at ensuring energy security for the Company and the residents of Kędzierzyn-Koźle. The new concept is a viable alternative to the planned implementation of the second stage of construction of the CHP plant, providing for the construction of another coal-fired boiler. The project envisages using process heat from chemical units, which is a more economical and environmentally-friendly solution. Completion of the project, which is of strategic importance for the company and the local community, is scheduled for 2021.

The new concept presents an innovative view on industrial power generation, enabling the use of heat generated in the ammonia production process to produce heat and electricity. As a result, it

will be possible to abandon the construction of another coal-fired boiler, save nearly PLN 200m and reduce current operating expenses by approximately PLN 30m a year. To implement the concept, which will involve the construction of peak load/reserve boilers guaranteeing heat availability in case of extraordinary events, Grupa Azoty KĘDZIERZYN will allocate PLN 282m.

The new concept is consistent with Poland's long-term economic development objectives, defined in the "Development Directions of Energy Innovations", which will be pursued in 2021-2050 through activities enhancing the competitiveness of the Polish chemical and energy sectors.

PGE Energia Odnawialna to build a PV farm with Grupa Azoty SIARKOPOL

On May 20th 2019, Grupa Azoty SIARKOPOL signed a letter of intent concerning the construction of a photovoltaic farm by PGE Energia Odnawialna (a PGE Group company). A 5 MW unit with an annual generation of 4.97 GWh will most likely generate clean energy for Grupa Azoty SIARKOPOL's own needs. The parties to the letter have not precluded further significant development of the project in the form of a joint venture.

The PV power plant will be built on Grupa Azoty SIARKOPOL's ten-hectare former mining area in the Municipality of Osiek, Province of Kielce. The power plant, consisting of approximately 16,000 photovoltaic panels, is set to go on stream in mid-2022. It will be one of the largest plants of this type in Poland.

The Parent's debut on the 3D printing material market

The Parent made a debut on the 3D printing material market with the launch of a product under the trade name 'Tarfuse'. The product received expert recognition, winning an award at PLASTPOL, the most important fair for the plastics industry. Tarfuse PA is a filament produced from top quality polyamide 6, designed for 3D printing using one of the six available incremental technologies, the FDM (Fused Deposition Modeling) technology. The technology consists in building an item by applying, layer after layer, melted filament (plastic), bonding it with previous layers of the item until a full-size model is developed. Products manufactured from this material can be used in the automotive, electrical engineering and household appliance industries, as well as in medicine. Suitable varieties may be admitted for contact with food.

Multiple applications of the technology in various areas, decreasing unit production cost and seamless connection with the design process contribute to the rapid development of the 3D printing technology, which will also be encouraged by the development and growing availability of increasingly more durable and cheaper materials.

Force majeure event with respect to Polyamide 6 supplies

On July 8th, the Parent announced a Force Majeure event with respect to PA6 supplies following an unexpected defect on one of the Polyamide 6 (PA6) production lines.

The defect has been removed and the unit is operating in normal mode producing Polyamide 6 (PA6) of standard value. Therefore, the force majeure event with respect to Polyamide 6 (PA6) supplies was cancelled on September 11th 2019.

New plasticizers

On July 10th, Grupa Azoty KĘDZIERZYN added speciality plasticizers Adoflex® and Oxovilen® to its product mix, marking another step in the development of its OXO segment with a focus on producing a variety of non-phthalic speciality products.

Coal gasification

On October 7th 2019, the Parent and Tauron Polska Energia S.A. filed an application with the Polish Office of Competition and Consumer Protection ("UOKiK") concerning the establishment of a joint venture by the applicants.

The notification concerns the establishment of a joint venture in the form of a limited liability company based in Warsaw (an SPV), which is a concentration within the meaning of Art. 13.2.3 of the Act on Competition and Consumer Protection.

The SPV will be established subject to the consent of the President of UOKiK. The SPV will not conduct any commercial activities, i.e. it will not any sell goods or services.

Launch of a New Modified Plastics Plant

On December 18th 2019, Grupa Azoty Compounding Sp. z o.o., operating within the Plastics segment, launched a new Modified Plastics (Compounding) Plant with an annual production capacity of 50,000 tonnes. The business and technology partner in the project is Akro Plastic GmbH of Germany. The plant was built in just 18 months based on state-of-the-art technologies and equipment, on a budget of PLN 100 million.

By modifying polyamide produced in Tarnów and other plastics, the plant will produce specialist modified plastics used in the automotive, machine engineering, construction, electronics and household appliances production industries.

The new Modified Plastics Plant will be able to manufacture even more advanced plastics, the highest quality of which is ensured by the use of state-of-the art global technologies and by experienced staff.

New Research and Development Centre in Kędzierzyn

Grupa Azoty KĘDZIERZYN will establish a Research and Development Centre (“CBR II”) to support innovation in the OXO segment and plastics processing. The company has obtained the corporate approvals necessary to implement this strategic investment project.

The project is a continuation of the Application and Development Research Laboratory (“CBR I”) launched in November 2018, which enabled Grupa Azoty KĘDZIERZYN to reproduce production processes in a laboratory and perform comprehensive testing of the samples received.

The Research and Development Centre is part of the Group’s updated Strategy. Its implementation will contribute, among other things, to adding to the Company’s product mix further special esters, as well as to extending the product chain and processing of aldehydes into specialty products.

For the establishment of the Research and Development Centre, Grupa Azoty KĘDZIERZYN obtained EU funding under the Smart Growth Operational Programme. The project is scheduled for completion in 2021.

Events after the reporting date

Antitrust clearance of intended concentration

On January 21st 2020, the Management Board of Grupa Azoty POLICE was notified of a decision issued by the Polish Office of Competition and Consumer Protection (UOKiK) clearing the proposed concentration whereby the Parent, Hyundai Engineering Co., Ltd., Korea Overseas Infrastructure & Urban Development Corporation and Grupa LOTOS S.A. would establish a joint venture operating under the name of Grupa Azoty POLYOLEFINS S.A. This satisfies one of the conditions precedent under the initial term sheet.

Information about actual and potential effects of coronavirus (SARS-CoV-2)

In connection with the Act on Special Arrangements to Prevent, Counteract and Combat COVID-19, other infectious diseases and crisis situations caused by them (Dz.U. of 2020, item 374) and the pandemic announced by the World Health Organisation in connection with the spread of coronavirus SARS-CoV-2, causing disease COVID-19, the Grupa Azoty Group has taken immediate measures to protect its operations against the consequences of the pandemic. In order to enable the Company and other Grupa Azoty Group companies to operate in a possibly smooth manner, procedures have been put in place to ensure prompt reaction of appropriate services. In addition, the Grupa Azoty Group has issued instructions to mitigate the risk of infection for its employees, including in particular:

- issuing detailed instructions and guidelines on monitoring the health of the Group’s employees and the health of trading partners’ employees who come in physical contact with the Group’s employees,
- reducing the number of meetings as well as domestic and foreign business travel, and using teleconferencing and videoconferencing as much as possible,
- enabling remote work to the extent it does not disrupt the work of a given organisational unit,
- providing the Group’s employees with additional personal protection and hygiene supplies.

Moreover, the Grupa Azoty Group is regularly monitoring the market situation with respect to sales of products and supplies of key raw materials and feedstocks, as well as the situation on financial markets in the context of currency risk and interest rate risk. Measures of this type have been taken at the Company and all its subsidiaries, including the COMPO EXPERT Group, with respect to operations in all markets where the companies are present.

As at the date of authorisation of this Report for issue, the Grupa Azoty Group did not observe any significant decline in sales or any disruptions in the supply chain of raw materials, feedstocks, materials and services, or any increase in staff on sick leave with an adverse effect on continuity of production, or in any support areas.

At the same time, a number of material risk areas related to the COVID-19 pandemic have been identified, potentially with a material bearing on the Group’s future financial performance. The risks include:

- Disruptions in the supply chains of raw materials and in the sale of products due to transport disruptions (especially in areas with high epidemic risk) caused by problems faced by transport

companies, reduction in the number and types of available means of transport, higher delivery costs due to increased transport rates, especially in exports, temporary border closure or other related constraints. There are problems with the availability of means of transport for export goods.

- Potential temporary disruptions in timely execution of investment projects and repair works at the Company or other Group entities due to difficulties faced by or limited availability of contractors, possible delays in deliveries of materials and equipment, and public administration bodies' decision-making in administrative processes.
- Disruptions in the continuity of production processes in the event of reduced staff availability.
- Potential risk of deterioration in the financial liquidity of some of our trading partners as a result of payment gridlocks.
- Volatility of exchange rates.

Possible risks of sales disruption in the individual segments as at the date of this report:

Agro Fertilizers

No significant drop in demand on the fertilizer market has been observed. However, export sales may be affected by negative consequences. Lower sales to foreign customers may be offset by lower imports and higher domestic sales. Grupa Azoty Group's export market share in the fertilizer segment is 35%.

Plastics

Customers from different industries have started to reduce their orders. The largest declines are expected in the automotive industry. The temporary shutdown of most automotive plants in Europe announced by the leading car manufacturers will result in a drop in orders throughout the entire supply chain.

Chemicals

There have been the first instances of limited ability to supply oxo alcohols and plasticisers to countries with widespread epidemic due to both production constraints on the part of trading partners and transport constraints. At present, approximately a quarter of our oxo alcohol and plasticizer output is exported to countries where the COVID-19 pandemic is particularly widespread. In addition, the Grupa Azoty Group received first notices from some of its melamine customers about a temporary production cut. These developments will not have a significant effect on sales in Q1 2020, but there is a risk of lower demand in the coming months.

The slowdown in transport companies' operations translates into lower purchases of fuels and fuel additives that reduce exhaust emissions (NO_x[®]). NO_x[®] distributors are starting to report problems with contract performance (especially export contracts).

A negative impact of the situation on the pigment market in Europe has been identified. Italy is the first country to introduce laws on complete closure of those industrial segments which are not related to civil security, therefore the sale of titanium white on the Italian market has been stopped. There are reasonable grounds to expect similar restrictions in other European countries. No unequivocal projections can be made in this respect as, on the one hand, demand is expected to decline and, on the other, it may just as well pick up due to constraints in supply from the Chinese market.

Concurrently, in addition to the abovementioned stricter procedures introduced to ensure physical security of employees and trading partners so as to minimise the risk of infection, intensive measures have been undertaken to support our financial condition. These measures include in particular:

- Close monitoring of sales, trading partners' position and collection of receivables.
- Implementing crisis management rules, in particular with regard to carrying out repair works and investment projects, in order to limit their scope to activities which are mandatory due to technical or legal reasons.
- Cooperation with public administration bodies in developing appropriate regulations to mitigate the adverse consequences of the COVID-19 pandemic for the economy.

It should be noted that given the Group's strong financial performance in 2019, its financial condition is stable. The Group also has additional sources of liquidity, namely cash held, whose amount as at December 31st 2019 was PLN 945m (including cash held as bank deposits), undrawn credit facilities of PLN 3,089m as at December 31st 2019, and undrawn reverse factoring facility of PLN 62m. As at March 31st 2020, the amount of cash held was PLN 974m, the amount of undrawn credit facilities was PLN 2,386m, and the amount of the undrawn reverse factoring facility was PLN 507m.

In the current market conditions, the Company benefits from low prices of commodities, in particular natural gas, and the weakening of PLN against EUR and USD due to significant export sales as well as the ongoing fertilizer application season.

In the opinion of the Company's Management Board, the implemented preventive measures minimise the risk of business disruption. However, it cannot be rule out that continued spread of the COVID-19 pandemic and its consequences may have a material adverse effect on Grupa Azoty S.A.'s operations. Given the large number of unknowns, this effect cannot be reliably estimated as at the date of authorisation of this report for issue.

4. Growth strategy and policy

4.1. Strategy and growth directions

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.

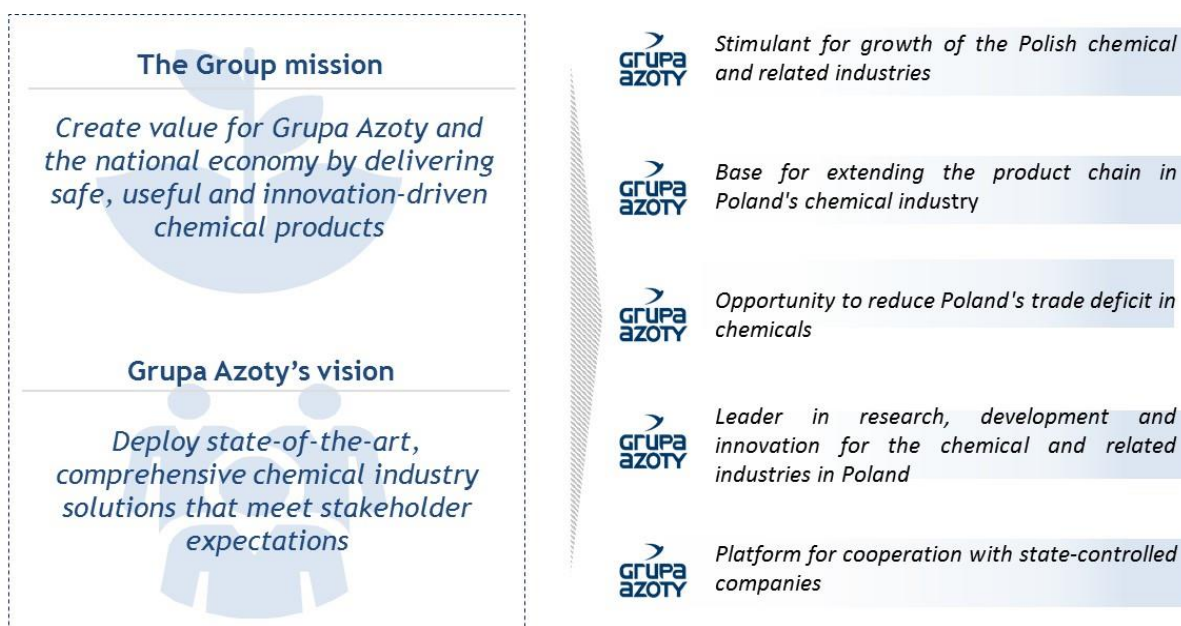
The updated documents outline the Group's key strategic objectives in the main product areas with respect to innovations, operations, sales and financial policy. The strategy also defines the corporate management objectives and methodology applied across the Group.

The Group will deploy state-of-the-art, comprehensive chemical industry solutions that meet stakeholder expectations. The Group's activities will serve as a catalyst for growth of Poland's chemical sector and related industries and a springboard for expansion of the product chain in the domestic chemical sector (in particular by building a feedstock base for propylene, polypropylene and their processing products), and will position the Grupa Azoty Group as the leader of R&D and innovation in Poland's chemical sector and associated industries. By harnessing innovative mechanisms, the Group will revamp its revenue structure by moving towards high-margin and low-tonnage chemicals.

Mission: Create value for the Grupa Azoty Group 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.

Mission and Vision of the Grupa Azoty Group



Source: Company data.

Strategic growth directions

Changes in economic conditions and in the Grupa Azoty Group's immediate environment have necessitated a revision to its previous strategic objectives to better align them with the current market landscape.

In 2020, the Grupa Azoty Group will pursue growth in four areas representing the main 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. 2020 will see further integration of processes and consolidation of such functions as sales, procurement, logistics, finance, IT.

Reinforce leadership in agricultural solutions in Europe

To preserve its strong position on the fertilizer markets at home and regionally, the Group 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, the Group 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, the Grupa Azoty Group 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, the Grupa Azoty Group 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.

Key development directions in the areas supporting Grupa Azoty Group's business

The updated Strategy provides for reviewing further centralisation of the Energy segment. The extent of centralisation will depend on the potential costs and benefits, and the ability to ensure energy security of the Group's individual plants.

As regards Logistics, the Strategy provides for process consolidation across Grupa Azoty Group's plants based on standardised IT systems, enabling supervision of processes and centralisation of logistics information, and thus effective management and improvement of efficiency. In the long term, full process and IT integration will be the basis for transferring logistics to the Shared Services Centre.

In the area of logistics assets management, Grupa Azoty Group's strategy provides for developing and implementing a railway asset management model and increasing the use of marine assets in Police and Gdańsk. In addition, analytical and design work was planned to be carried out to explore the potential of the Oder River Waterway.

The objective of the measures taken by the Grupa Azoty Group in the Asset Management area will be to achieve optimum efficiency, including by harmonising operational planning and production processes for businesses at the Group level, and by standardising operational and cost efficiency reporting.

With a view to improving safety (of people, environment and processes), reducing the failure rate and improving the availability rate, the Grupa Azoty Group will take steps to optimise the management of non-current assets.

To achieve cost and process synergies and better align IT support with key business processes, the Grupa Azoty Group will focus on further streamlining of the IT environment. To this end, a target model of this environment at the Grupa Azoty Group and an IT transformation plan enabling the planned changes to be implemented will be developed.

In November 2019, the Parent's Management Board launched a project to prepare the Group's Strategy for 2020-2030.

4.2. Growth prospects and market strategy

In line with the Grupa Azoty Group's updated strategy until 2020 and its operationalisation, the Group's investment efforts in 2020 will focus on continued improvement of the efficiency of current production operations in the Agro Fertilizers segment and strengthening the second operating pillar by expanding the non-fertilizer business. Projects will be carried out to further improve the efficiency of production activities, including to boost energy efficiency and further extend the product chain. Projects will also be carried out to mitigate the environmental impact of production operations and improve the safety of production units' operation. Other important investment activities in 2020 will be the implementation of projects related to adaptation of the Energy segment to the requirements of BAT conclusions and projects related to modernisation of logistics and inventory management.

Agro Fertilizers

Grupa Azoty Group's growth strategy for Agro Fertilizers focuses 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 are mainly focused on tailoring the product portfolio to the needs of large-scale farms, while maintaining a strong position among small farmers. The Grupa Azoty Group is also expanding its offering with specialised precision farming services.

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

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

Plastics

In Plastics, the Group's strategy focuses on extending the value chain to include more specialty products, expanding into new business fields, and improving operational efficiency.

The new polyamide unit brought on stream in Tarnów has enabled the Group 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 produces polyamides in a full viscosity range, suitable for a broader spectrum of applications.

In line with its strategy, the Grupa Azoty Group 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.

OXOplast

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

In order to satisfy its own propylene demand and create opportunities for growth in a new value chain, the Group will carry out a project to build propylene (PDH) and polypropylene production units in Police.

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

Titanium white and melamine

The Group's 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.

Raw materials strategy

The Grupa Azoty Group is dependent on external suppliers. Raw materials and energy commodities account for more than 60% of total operating expenses.

Strategic tasks in the area of raw materials are:

- ensuring stable supplies,
- further consolidation of procurement processes,
- addition of new product categories.

The Grupa Azoty Group effectively leverages its competencies in managing natural gas supplies and continues signing gas supply contracts providing for price formulae based on market prices of gas. Continuity of supplies will be maintained through long-term contracts with reliable suppliers, while monitoring market and regulatory developments and taking proactive measures to optimise the supply portfolio through partnerships with diverse suppliers.

Strategic raw materials for fertilizer production

The measures that are being undertaken are designed to enhance the efficiency of the use of the Group's own raw material assets while optimising the cost of key raw materials purchased from third parties. The Grupa Azoty Group will leverage the benefits of geographical location of its plants in the proximity of existing manufacturers and secure the supplies of raw materials that enable it to meet the growing requirements of environmental regulations.

Other strategic raw materials - the Grupa Azoty Group will continue the construction of a propylene unit. The supply of other raw materials will be based on long-term master agreements optimised using spot transactions. The objective is to reduce costs and better secure supplies through initiatives within logistics infrastructure.

Innovation strategy

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

In order to maximise potential benefits, Grupa Azoty Group's R&D&I activities 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.

The Group's strategy focuses on driving innovation to extend the value chain with high-margin, specialty fine products, and adapting new technologies while refining existing processes.

The Grupa Azoty Group 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.

Financial strategy

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.

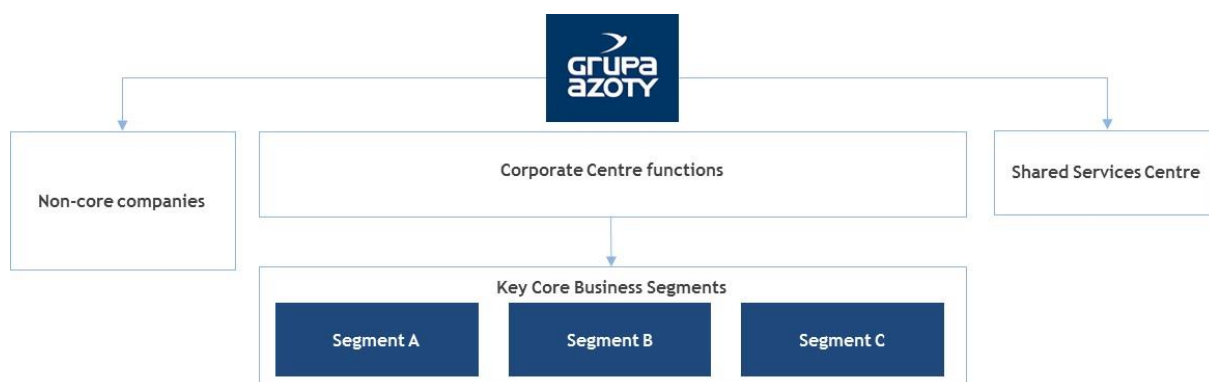
Accordingly, if justified, the Management Board will not recommend a dividend payment.

Corporate management strategy

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

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.

Management structure



Source: Company data.

Segment management is being introduced, non-core companies are undergoing consolidation or are offered for sale. There are also ongoing consolidation measures in sales and procurement areas. The Group's CSR initiatives encompass sustainable development efforts taking into account 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.

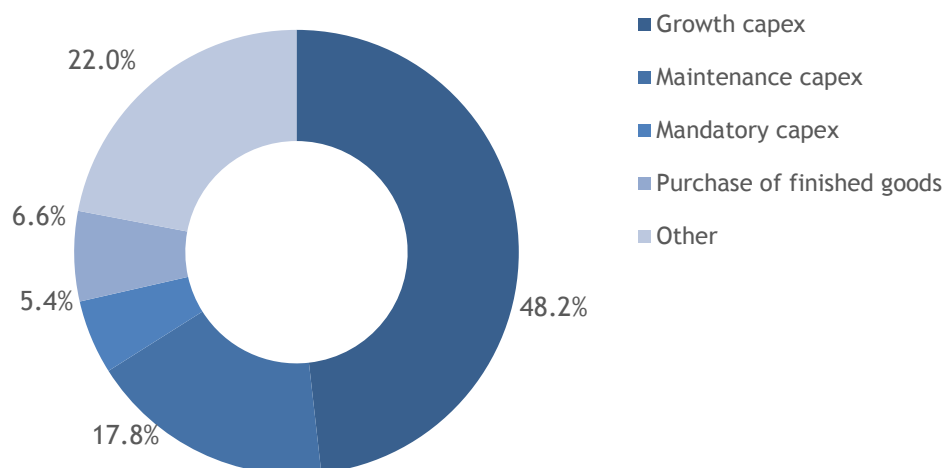
4.3. Key investments in Poland and abroad

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 2019:

- | | |
|--|----------------------|
| • Growth capex | PLN 541,768 thousand |
| • Maintenance capex | PLN 200,291 thousand |
| • Mandatory investments | PLN 60,674 thousand |
| • Purchase of finished goods | PLN 73,552 thousand |
| • Other (components, major overhaul work, other) | PLN 247,390 thousand |

Structure of capital expenditure



Source: Company data.

Grupa Azoty Group's capital expenditure in 2019:

• Parent	PLN 138,023 thousand
• Grupa Azoty PUŁAWY Group	PLN 494,982 thousand
• Grupa Azoty KĘDZIERZYN Group	PLN 144,210 thousand
• Grupa Azoty POLICE Group (excluding Grupa Azoty POLYOLEFINS)	PLN 115,440 thousand
• Grupa Azoty POLYOLEFINS	PLN 90,439 thousand
• Grupa Azoty Compounding Sp. z o.o.	PLN 88,645 thousand
• COMPO EXPERT Holding GmbH Group	PLN 16,996 thousand ^{*)}
• Grupa Azoty SIARKOPOL	PLN 14,264 thousand
• Grupa Azoty KOLTAR Sp. z o.o.	PLN 12,659 thousand
• Grupa Azoty PKCh Sp. z o.o.	PLN 4,840 thousand
• Grupa Azoty ATT Polymers GmbH	PLN 3,177 thousand ^{*)}

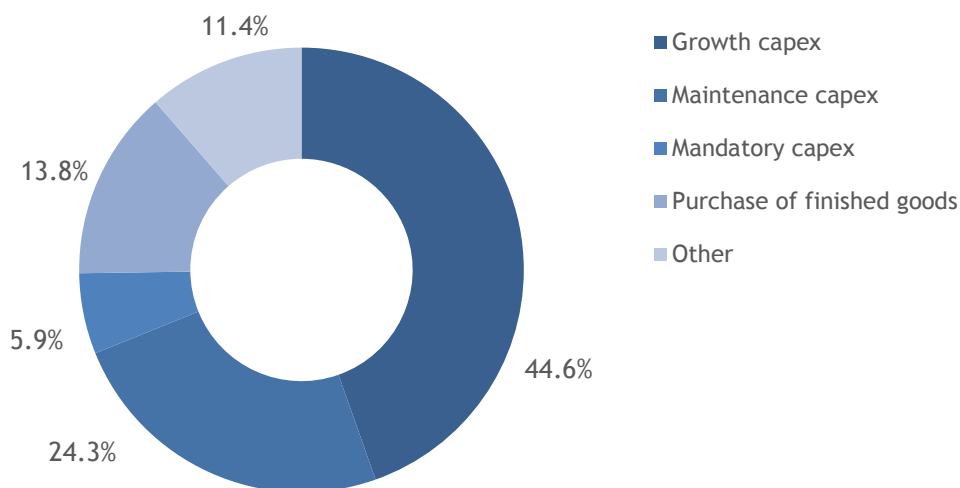
^{*)} Translated at the EUR/PLN exchange rate quoted by the National Bank of Poland for December 31st 2019: EUR 1 = PLN 4.2585 (table No. 251/A/NBP/2019).

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 2019:

- Growth capex PLN 61,543 thousand
- Maintenance capex PLN 33,543 thousand
- Mandatory investments PLN 8,102 thousand
- Purchase of finished goods PLN 19,106 thousand
- Other (components, major overhaul work, other) PLN 15,729 thousand

Structure of the Parent's capital expenditure



Source: Company data.

Key investment projects implemented by the Group as at December 31st 2019

Project name	Project budget	Expenditure incurred	Expenditure incurred in 2019	Project purpose	Scheduled completion date
Parent					
Chemical Technology and Development Centre	74,100	71,780	20,055	Construction of R&D centre for Grupa Azoty S.A.	Completed
Grupa Azoty POLYOLEFINS					
Propane Dehydrogenation (PDH) unit with related infrastructure, and polypropylene (PP) production unit	USD 1,801,109 thousand	253,107	93,526	Construction of a propylene dehydrogenation plant (PDH) and a polypropylene production plant with associated infrastructure, including the expansion of the Police Sea Port to include a propane and ethylene handling and storage terminal.	2022

Project name	Project budget	Expenditure incurred	Expenditure incurred in 2019	Project purpose	Scheduled completion date
Grupa Azoty PUŁAWY					
Construction of a coal-fired power generation unit	1,200,000	10,695	10,695	Adaptation of energy generation units to environmental requirements, while increasing the share of the autoproducer CHP plant in electricity consumption by production units and ensuring continuity of energy supply	2022
Upgrade of existing nitric acid production units and construction of new nitric acid production and neutralisation units and units for production of new fertilizers based on nitric acid	695,000	240,992	155,357	To raise the efficiency of nitric acid production and improve the economics of production of nitric acid-based fertilizers	2024
Facility for production of granulated fertilizers based on ammonium nitrate	385,000	363,447	71,035	To improve the quality of fertilizers by applying modern mechanical granulation	2021
Grupa Azoty PUŁAWY					
Upgrade of steam generator OP-215 No. 2 to reduce NO _x emissions	93,000	30,472	24,667	To bring the steam generator into compliance with new NO _x emission standards and restore it to proper working condition	2021
Grupa Azoty POLICE					
Making production of demineralised water independent of variable salinity of the Oder River and increasing the ability to produce special waters in the units	108,000	1,049	1,049	Upgrade and expansion of the water treatment and demineralisation station as a means of protection against periodic salinity increases in the Oder river for Grupa Azoty POLICE companies	2022
Change of phosphoric acid production method (DA-HF technology)	83,350	82,748	1,218	To raise the efficiency of phosphoric acid production and improve the acid quality	Completed (unit start-up in progress)
Grupa Azoty KĘDZIERZYN					
Upgrade of the synthesis gas compression unit supplying the Ammonia Plant	140,000	59,323	27,953	To rebuild the capacity of synthesis gas compression for the Ammonia Plant through the installation of new compressors	2021
Grupa Azoty Compounding Sp. z o.o.					
Modified Plastics Plant	115,000	104,168	93,912	Construction of plastics modification unit	Completed

Source: Company data.

4.4. Equity investments

Save for the 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

The Grupa Azoty Group is continuing investment projects commenced in previous years, but also plans to embark on new ones. The Group has full capacity to finance such investment projects. Expenditure on property, plant and equipment under the 2020 Investment Plan will be financed, first of all, with Grupa Azoty Group's own resources, working capital and funds available under Grupa Azoty Group's New Financing Agreements, intended to finance Grupa Azoty Group's general corporate needs arising from its Strategy and Investment Programme. As the credit facilities in place provide the required cover for capital expenditure, the risk that the planned investments will not be carried out is very low. Environmental protection projects will be analysed for the potential for raising financing from non-bank sources on preferential terms, such as EU funds or national support programmes.

In 2019, the Parent incurred capital expenditure of PLN 138m, financed with its internally generated funds, funds available under long-term credit facilities and, to a lesser extent, with leases and grants.

Grupa Azoty Group's total capital expenditure in 2019 reached PLN 1,124m and was financed with its internally generated funds, funds available under corporate credit facilities (redistributable among the Group companies) and, additionally, with borrowings, leases and grants.

Under its centralised financing model, in 2019 the Grupa Azoty Group continued to use the long-term credit facilities for a total amount of PLN 4,670m to finance the Group's capital expenditure and other objectives outlined in the long-term strategy. The facilities included:

- a PLN 3,000m syndicated revolving and term credit facility; as at December 31st 2019, funds available under the facility were PLN 1,552m,
- term credit facilities from EIB and EBRD totalling PLN 1,670m; as at December 31st 2019, funds available under the facilities were PLN 592m.

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

The Grupa Azoty Group manages the innovation area taking a comprehensive approach. Based on the adopted strategic development directions and the Research Agenda, the Group's representatives participate in a number of initiatives to find new innovative solutions, such as accelerator programmes, and participate in subsidised projects. Thanks to its infrastructure resources, the Group has the possibility of testing new technological solutions and conducting its own research. The Group also seeks to further operationalise its R&D&I activities and to improve and develop tools that support coordination and efficient management of R&D projects.

Research Agenda

In line with the adopted Strategy of the Grupa Azoty Group for 2013-2020 and the update and operationalisation of the Strategy, the R&D projects carried out in 2019 focused on:

- development and launch of new fertilizer products,
- development of services/new functionalities in response to the expectations of target users to optimise agricultural production using precision farming tools,
- development of technology for the manufacture of polymer materials for 3D printing,
- extension of the modified plastics mix,
- optimisation of operation of selected production lines and improvement of product quality,
- development of innovative product technologies,
- lessening of the environmental impact,
- preliminary market analyses for new promising products.

Most research and development work is carried out as long-term programmes, which is why the work carried out in 2019 was a continuation or extension of ongoing projects.

As part of R&D work, the Group worked closely with universities, scientific institutions and start-ups.

Research projects are carried out for each business segment, and in 2019 the projects focused on:

- In the fertilizer segment: projects to prepare for the entry into force of new regulations affecting the Grupa Azoty Group's product portfolio;
- In precision fertilization: development of intuitive tools for agricultural farms aimed at making precision agriculture techniques common practice in agriculture;
- In the plastics segment: modifications of produced plastics; in particular development of new varieties of polyamide 6 for 3D printing and for electrochemical applications, and polyamide for extrusion into semi-finished products for machining;
- In the area of catalysts: work on enhancing the performance of existing catalysts used mainly in ammonia lines, and on developing new catalysts to be applied in new fast-growing industries;
- In the field of electromobility: developing speciality chemical products for manufacturing batteries;
- Conceptual work to verify initially selected diversification directions for the Group were also an important part of the efforts.

Cooperation with start-up initiatives

In 2019, the Grupa Azoty Group's acceleration efforts were carried out as part of:

- SCALE UP programmes implemented in two project consortia, co-ordinated by FundingBox Sp. z o.o. (IMPACT_POLAND 2.0 project) and Krakowski Park Technologiczny (KPT Scale Up project). The purpose of participation in the programmes is to:
 - support cooperation between innovative start-ups and large and medium-sized enterprises,
 - find innovative technologies, products or ideas that meet the needs of the Grupa Azoty Group,
 - implement semi-annual projects with innovative start-ups, which will ultimately be implemented at the Grupa Azoty Group.
- IDEA 4 AZOTY is Grupa Azoty S.A.'s proprietary innovative acceleration programme, combining academic and research resources with Grupa Azoty S.A.'s business potential. It provides space for new ventures and projects.

Additional activities

As part of additional activities, in 2019 the Grupa Azoty Group continued the 'GRUPA AZOTY BRAND AMBASSADOR' programme. In the 2019/2020 academic year, the third edition of the programme is under way:

- the programme is dedicated to university graduate and post-graduate students;
- the objectives of the third edition of the programme: acquisition of young talent, promotion of the IDEA4AZOTY programme in the academic community, increasing students' knowledge of development directions for the Polish chemical sector, building lasting relations between science and industry;
- Ambassadors of the Programme at the University of Agriculture in Kraków, Jagiellonian University of Kraków, Wrocław University of Technology, Catholic University of Lublin, Maritime University of Szczecin.

Infrastructure supporting R&D activities

For many years, Grupa Azoty S.A. has had its own research facilities conducting research in plastics and compounds, fertilizers and organic chemistry. However, in order to increase the scale of its own research work, enable verification of the results of such studies and research at pilot-plant scale, and increase Grupa Azoty's R&D human resources potential, Grupa Azoty is significantly expanding its R&D infrastructure.

In 2019, the construction of the Research and Development Centre in Tarnów was completed. The Centre consists of 47 comprehensively equipped laboratory rooms and a pilot plant room for testing and rescaling technologies developed in laboratories. This comprehensive approach to research activities makes it possible to improve their effectiveness, and enables their results to be implemented and applied in the Company's operations, thus expanding its product portfolio.

Grupa Azoty S.A. has a modern vacuum coating system in place at the Research and Development Centre. The available infrastructure facilitates laboratory and pilot-plant testing as well as production. The vacuum coating laboratory is equipped with modern and precise devices to thoroughly check and test coating parameters.

Developing employee competence

The key element of the innovation ecosystem at the Grupa Azoty Group is access to professional staff. The Grupa Azoty Group places great importance on developing employee competence and provides its employees with internal training courses as well as opportunities to participate in

professional development workshops. In 2019, a series of internal training sessions was delivered, including:

- training courses preparing project managers and R&D staff for PMP (Project Management Professional) certification in line with the Project Management Institute's PMBOK methodology;
- workshops for the Research and Development Centre staff on raising external funds for new R&D projects;
- application training in BET specific surface area determination, scanning electron microscopy including elements of SEM EDS (Energy Dispersive Spectroscopy) quantitative analysis, Differential Scanning Calorimetry (DSC) thermal analysis, Thermogravimetric and Mass spectrometry (TG-MS) and the use of an X-ray diffractometer;
- training in stabilisation of fertilizer formulae with nitrification and urease inhibitors and in the analytical methods in use, and ANSYS FLUENT training in the 'Asymmetrical Flow Field-Flow Fractionation (A4F)';
- training in Laboratory Information Management Solutions (LIMS) - CS 18 LIMS System, and application training in ANSYS SPACECLAIM DIRECT MODELER and ANSYS Meshing.

5. Current financial position and assets

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.

Extended shutdown of ammonia and urea units

During the standard annual maintenance shutdown at the Nitro Business Unit at Grupa Azoty POLICE, which took place between April 4th and June 11th 2019, a defect in the boilers of the synthesis gas unit was discovered. As a consequence, the ammonia synthesis unit and the urea synthesis unit were not re-launched as planned.

In the second half of August 2019, one ammonia line and the urea unit were put into operation. Originally, the urea unit was scheduled to be placed in service in June. The event had no adverse environmental impact, but it did affect the financial results for Q2 and Q3 2019. Lost profits were primarily attributable to lost margins on sales of nitrogen products, including urea, urea solutions and ammonia, which would have been in all likelihood realised if the units had been operating. Preliminary estimates of lost profits were disclosed to the public in a current report. The financial effect of the temporary shutdown of the units (lost profits) were estimated at PLN 53.7m on the consolidated basis (including PLN 46.6m in the period under review). The loss estimate is also based on the fact that the unscheduled extension of maintenance shutdowns occurred during a period of relatively low gas prices and favourable conditions on the urea market, increasing the potential for achieving relatively high margins. In connection with the event, Grupa Azoty POLICE claimed compensation under its insurance policy. In previous years, the units were shut down for annual maintenance in Q3.

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

On August 27th 2019, the Management Board of Zakłady Azotowe Chorzów S.A. passed a resolution to recognise a PLN 7.8m impairment loss on the company's fat processing unit.

In accordance with IAS 36, indications of impairment of the assets allocated to the cash generating unit "Other Activities" were analysed, following which the Company made a formal estimate of their recoverable amount by determining their value in use.

The financial forecasts adopted for the period covered by the impairment test performed for the cash generating unit "Other Activities" were prepared based on the assumption of a moderate, conservative increase in the Company's revenue in the following years. The revised forecasts showed a lower than assumed as at December 31st 2018 potential for Zakłady Azotowe Chorzów S.A. to generate revenue from sales of NPK blends in the coming years, and the expected margin on sales of the main fertilizer products, i.e. potassium nitrate and calcium nitrate, was revised down.

The effect of the event whose consequences were taken into account in the Grupa Azoty Group's financial statements for H1 2019 is as follows:

- the effect on consolidated EBIT of the Grupa Azoty Group was PLN (22m),
- the effect on consolidated net profit of the Grupa Azoty Group was PLN (19m).

As at December 31st 2019, recognition of any additional impairment losses was not required.

Impairment loss on part of Grupa Azoty SIARKOPOL assets

Following an analysis by the Parent's Management Board of indications of impairment and the need to recognise impairment losses on the Parent's assets, including the shares it holds in its subsidiaries and the assets of those subsidiaries recognised in the consolidated financial statements, it was determined that impairment tests were required. The tests showed the need to recognise an impairment loss on a portion of the assets at the subsidiary Grupa Azoty SIARKOPOL. This is due to the observed collapse of the sulfur market, both in terms of sales volumes and prices.

The effect of this event on the consolidated result for 2019 is as follows:

- effect on consolidated EBITDA: PLN (28.8)m,
- effect on consolidated net profit/(loss): PLN (23.4)m.

The impairment loss on non-current assets at the level of the consolidated financial statements makes it necessary to recognise a PLN 32.2m impairment loss on Grupa Azoty SIARKOPOL shares in the separate financial statements of the Parent.

The effect of the above event on the Parent's separate net result for 2019 was PLN (32.2)m.

As the impairment loss on the shares will be charged to finance costs, it will not reduce the Company's separate EBITDA for 2019.

Use of asset embodying future economic benefits

The Parent's Management Board carried out an analysis of the possibility of using an asset embodying future economic benefits resulting from the Parent's operations carried out in the Kraków Technology Park Special Economic Zone (the "SEZ") with respect to Polyamide Plant II.

As at December 31st 2018, the Company recognised an asset on account of the benefits it then expected to obtain from operating in the SEZ, in an amount corresponding to the expected tax savings generated by operations in the SEZ, estimated at PLN 25.9m. As at June 30th 2019, the amount was updated and estimated at PLN 21.5m. In view of the fact that in 2019 the Company posted a loss on operations in the SEZ and that the prospects for these operations in the coming periods are not optimistic, the realisation of the asset is uncertain and a decision was made to derecognise the asset.

The derecognition has no effect on the separate and consolidated EBITDA. It only has an effect of PLN (21.5)m on the separate and consolidated net profit for 2019.

Volatility of exchange rates

Factors and events bearing on the Grupa Azoty Group's financial performance in 2019 included the continuing strong domestic GDP growth coupled with low unemployment and rising household incomes.

At the same time, given the signs of a global economic downturn in the eurozone, uncertainty regarding Brexit, and trade disputes between the US and China, the above external factors led to depreciation of both the euro and emerging markets' currencies against the US dollar in 2019. As a result, the zloty strengthened against the euro and US dollar in the first half of 2019, weakened in the third quarter, and then appreciated again in the fourth quarter of the year.

All in all, in 2019 the zloty gained approximately 1.0% against the euro and depreciated about 1.0% against the US dollar compared with the levels recorded as at December 31st 2019. The average PLN/EUR exchange rate and the average PLN/USD exchange rate in 2019 fell by about 0.9% and 6.3%, respectively, compared with the average for 2018.

All in all, the zloty depreciated against the US dollar and the euro only to a small extent, without any material effect on the Group's results for the period.

Over the majority of 2019, the EUR/PLN exchange rate remained within the medium-term equilibrium range of 4.25–4.35.

As regards the USD/PLN currency pair, it is expected that the zloty will follow the EUR/USD exchange rate, but given the moderately positive growth prospects for the global economy in 2020 the changes should be limited.

It is assumed that the forecast currency trends should not have a material bearing on the Group's performance in 2020.

The Group reduces the risk resulting from its net currency exposure by using selected instruments and taking measures to hedge against the currency risk based on the current and planned currency exposure. In the reporting period, the main hedging tools used by the Group included natural hedging; factoring and discounting of receivables denominated in foreign currencies; and currency forwards entered into on a rolling basis to cover up to 80% of the remaining currency exposure with time horizons of less than 6 months, and up to 50% of the remaining currency exposure with time horizons between 6 and 12 months.

In the first half of 2019, some more of Grupa Azoty's subsidiaries trading in the euro acceded to the physical cash pooling service agreement with PKO BP. Physical cash pooling in euro allows the companies to use the Grupa Azoty Group's global liquidity limit in that currency. This further reduces their exposure to currency risk in euro by correcting potential mismatches in revenue and expenses over time.

In 2019, the Group's hedging tools were EUR and USD forward swaps, executed in the periods of depreciation of the Polish złoty to supplement forward hedges for the sale of EUR and USD, reflecting its planned net exposure in both currencies.

The Group's net result on hedging transactions settled in 2019 was a gain of PLN 3,541 thousand, with the net result on remeasurement of hedging instruments also positive at PLN 3,894 thousand.

In 2019, the Group's overall net result on the settlement of hedging transactions and remeasurement of hedging instruments was a gain of PLN 7,435 thousand.

The Group applies cash flow hedge accounting. The hedged item are highly probable future proceeds from sale transactions in the euro, which will be recognised in profit or loss in the period from January 2020 to September 2028. The hedging covers currency risk. The hedge are two euro-denominated credit facilities of:

- EUR 99,891 thousand as at December 31st 2019 (December 31st 2018: EUR 118,053 thousand), repayable from December 2018 to June 2025 in 14 equal half-yearly instalments of EUR 9,081 thousand each.
- EUR 100,000 thousand as at December 31st 2019 (December 31st 2018: EUR 50,000 thousand), repayable from December 2021 to September 2028 in 15 equal half-yearly instalments of EUR 6,666 thousand each.

As at December 31st 2019, the carrying amount of both these credit facilities was PLN 850,648 thousand (December 31st 2018: PLN 722,087 thousand). In 2019, the hedging reserve included PLN 7,250 thousand (2018: PLN 2,297 thousand) on account of the effective hedge. In 2018, the Group did not reclassify any amounts related to hedge accounting from other comprehensive income to the statement of profit or loss, while in 2019 the Group reclassified PLN 781 thousand from other comprehensive income to the statement of profit or loss in connection with the settlement of a hedging relationship with respect to payment of currency loan instalments against proceeds from sales in the euro.

Prices of CO₂ emission allowances

In 2019, the prices of CO₂ emission allowances (EUA) ranged between EUR 19 and EUR 28, trending downwards at the end of the year. Prices on the exchange market remain highly volatile. The exchange market became even more unpredictable following the inclusion, under the MiFID II Directive, of greenhouse gas emission allowances into the category of financial instruments. This makes the management of price risk related to emissions allowances more difficult. The Grupa Azoty Group purchases emission allowances in line with the joint management model for CO₂ emission allowances adopted by the Group, under an approved procurement plan. The Grupa Azoty Group pursues a policy of a rolling reduction of its deficit in CO₂ emission allowances through spot and futures transactions with a three-year time horizon.

In 2019, the Group also took measures to adapt to the changed situation and mitigate negative financial effects of the higher prices of CO₂ emission allowances by entering into futures contracts for the allowances during temporary price declines typical of high market volatility.

The exchange market is characterised by very high price volatility. The companies, based on Grupa Azoty Group's joint management model for CO₂ emission allowances and as part of a plan to purchase more emission allowances, continued to purchase allowances for 2019 and 2020-2021 by entering into futures contracts. Measures were also taken to adapt to the changed situation and mitigate the negative financial effects of the higher prices of CO₂ emission allowances by purchasing them during temporary price declines. At the end of 2019, Grupa Azoty Group companies held in EU ETS installation accounts allowances required to cover all CO₂ emissions in 2019. Further purchases of emission allowances are planned to secure a part of the planned balance sheet item for 2020-2021, with an option to increase the number of allowances for 2020-2021.

5.2. Market overview

AGRO FERTILIZERS

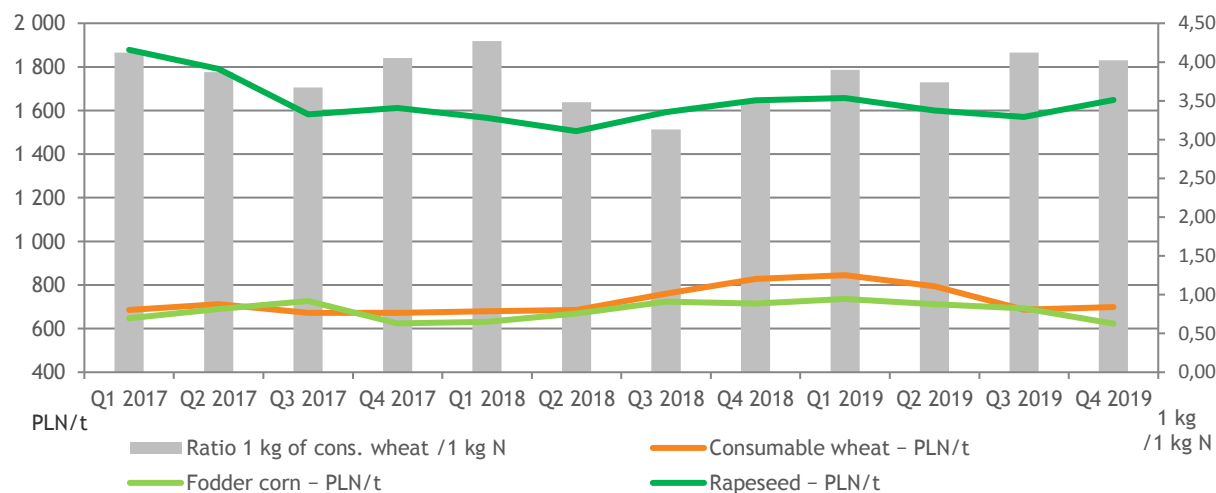
In 2019, the prices of key agricultural produce were slightly higher year on year. The highest price increase took place in the case of rapeseed, whose average price in 2019 was PLN 1,619/tonne, up by 2.6% year on year. Another produce whose prices were on a rise was milling wheat, whose prices rose by 2.4% year on year, to PLN 756 per tonne. The lowest price increase compared with the

previous year was reported for maize (up 0.9%, to PLN 691 per tonne). In 2019, the economic condition of the Polish agricultural sector deteriorated significantly. The main reason was another year of drought conditions, which had an adverse effect on the volume and quality of crops during the period. Despite a slight improvement in grain yields in Poland compared with the previous year, estimated by Statistics Poland (GUS) at 28.8 million tonnes (a year-on-year increase of 7.4%), the economic conditions in agriculture were adversely affected by a drop in prices of agricultural produce, particularly visible in the second half of the year. The drop delayed the sale of grains by the agricultural sector in the period under review.

Higher prices of agricultural produce expected in the first half of 2020 may trigger grain destocking and thus partly offset the losses. An event of fundamental importance for the economic situation of the Polish agricultural sector was the disbursement of advance direct payments and drought payments in the fourth quarter of 2019. From the aggregate amount of PLN 15.2bn earmarked for direct payments, the agricultural market received PLN 11.06bn (including advance payments). In the case of drought payments, the amount actually disbursed to farmers was PLN 0.6bn, from PLN 2.3bn initially earmarked for such payments. As announced by the Agency for Restructuring and Modernisation of Agriculture (ARiMR), the balance of the funds will be disbursed in the first half of 2020.

In the first half of 2020, the coronavirus pandemic will be the main factor influencing the situation of the agricultural sector. Uncertainty as to further developments on the market, uncertainty as to the availability to agricultural produce in international trade (logistical constraints), and nervous decisions of market players will be the principal price drivers during that period. What also matters are the fairly unoptimistic forecasts of cereal yields in the European Union, which are already estimated to be lower than the previous year's harvest. This will be a factor supporting prices. The situation of the agricultural sector later during the year will depend on this year's crops, future levels of cereal prices on the markets, and developments with respect to controlling the spread of coronavirus.

Prices of wheat, maize and rapeseed



Source: Ministry of Agriculture and Rural Development.

Average prices of wheat, maize and rape seed

	Average 2018 PLN/t	Average 2019 PLN/t	y/y %	Dec 2019 PLN/t	MIN 2019 PLN/t	MAX 2019 PLN/t
Milling wheat	738	756	2.4	710	677	856
Maize	685	691	0.9	637	609	740
Rapeseed	1,579	1,619	2.6	1,667	1,553	1,667

Source: Ministry of Agriculture and Rural Development.

Market of nitrogen fertilizers

In 2019, prices of nitrate fertilizers on the markets under review were slightly lower year on year. The average CAN price on the German market fluctuated around EUR 190/t CIF Inland, down 3.7% on 2018. A year-on-year drop in prices was also seen in the case of AN on the French market, where the average price in 2019 was EUR 274/tonne, compared with EUR 281/tonne in the previous year

(down 2.8%). In 2019, demand for nitrate fertilizers changed periodically, with the main reasons being the passive attitude of the agricultural sector, which postponed purchases until the last minute in anticipation of price decreases, and the continued sufficient supply of the product on the market. Another important factor was the nitrate programme in place in 2019, which slightly reduced the demand for fertilizers in the first months of the period under review. Owing, among other factors, to the weak financial condition of the agricultural sector, a majority of fertilizer purchases were made to cover current needs. In 2019, weather conditions, affecting application times, and individual fertilizer doses (especially in spring) were the key drivers behind the distribution of demand for nitrogen fertilizers.

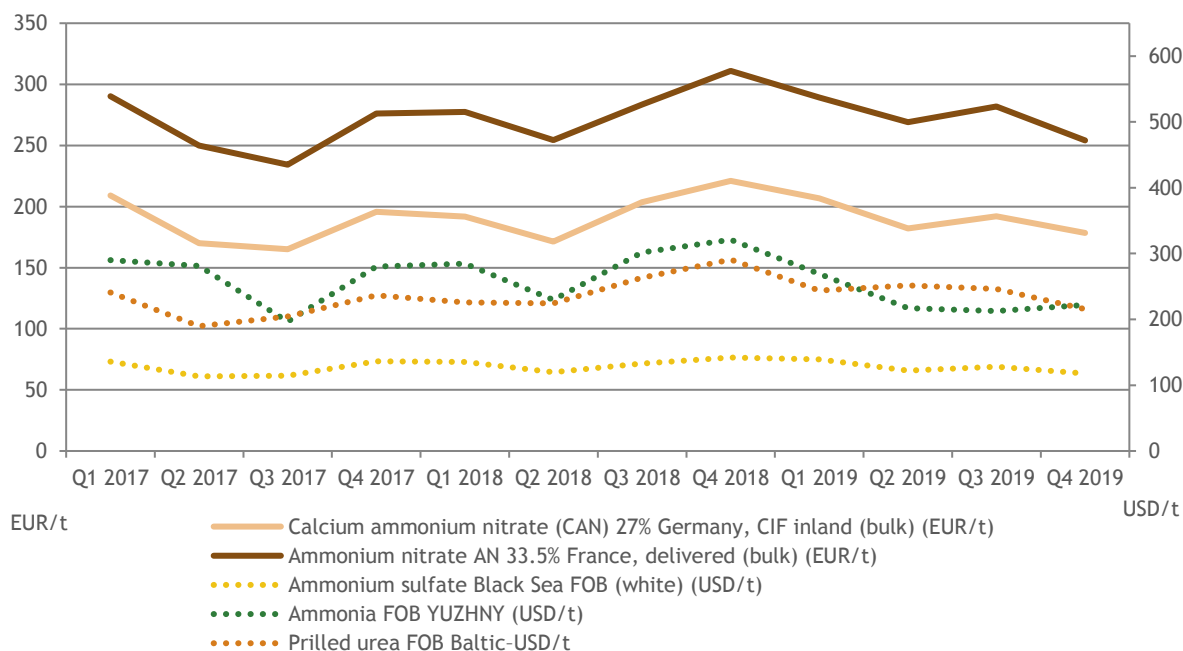
It is expected that in the first half of 2020 the situation on the fertilizer market will be significantly affected by the coronavirus pandemic, whose outbreak in Europe coincided with the peak of the spring season of fertilizer application. Growing demand for further nitrogen doses and uncertainty about continued availability of the product, combined with the agricultural sector's need to quickly cover future demand, may spur the demand for nitrogen fertilizers. This will be the main driver of price increases in the first half of 2020. In the current context, reports of possible production constraints at fertilizer plants and limitations in turnover volumes in international trade or within the same country are another factor that comes into play. In the third quarter of 2020, due to the harvest season the fertilizer market will stabilise and fertilizer prices will probably fall. A price increase is expected later on as the autumn fertilizer season approaches. This year's volumes of cereal crops and further developments in controlling the currently expanding pandemic will be important price drivers.

Prices of ammonia followed a downward trend over most of the period under review. The reasons for the situation were the continued global slowdown in this market segment, lower demand for ammonia from India, China and Korea, and the oversupply of the product on the market. The situation changed in June 2019, when the oversupply decreased due to production constraints caused by maintenance shutdowns. The price hike at the end of August was brought about by a slight drop in ammonia supply due to maintenance shutdowns (in Algeria, the Arab Peninsula and Malaysia) continuing into August. October is a period of price stabilisation, as reflected in contract and spot prices on both sides of the Suez Canal. The activity of India, Asia and Pacific with respect to October deliveries was limited. The last months of the year witnessed a clear slowdown combined with a continuing product oversupply, mainly attributable to producers maintaining their production at relatively stable levels.

The ammonia market has been dominated by the events related to the outbreak of the coronavirus epidemic in East Asian markets, leading to logistical problems which have also affected the market. Difficulties with supplies from China have triggered further consequences in the production chains. According to recent reports, the situation in China has improved, but the situation in the ammonia market remains uncertain as the virus epicentre has moved.

Throughout the period under review, urea prices followed a downward trend due to the global deceleration. The situation was made even worse by the significant oversupply of urea in some parts of the world, with demand down and limited purchases made in anticipation of a sharper decline in prices. The increase in India's demand for urea which, according to reports, was to be partially satisfied with Chinese urea, helped stabilise the price of the product. Although higher demand from India reduced the oversupply of urea globally, some markets (North Africa and the Baltic region) continued to be oversupplied at the end of Q3 2019. In addition, at the end of September, there were concerns as to whether the demand from Brazil would translate into any price increases. The main reason of the concerns was satisfying current demand with the product imported from Iran. The fourth quarter of 2019 saw further declines and further demand from India. Imports of urea into India increased at the end of the year to a total of 9.7m tonnes. Following the announcement of the tightening of measures concerning imports from sanctioned countries, imports from Iran accounted for only 3% of total imports in October 2019, compared with 28% 12 months earlier. China became the main beneficiary of this decision and Chinese exports to India more than quadrupled compared with the end of 2018. Currently, the two largest urea markets are under the influence of a non-market factor - the coronavirus, which effectively prevents making any projections for this market. The future will depend mainly on how quickly production, free movement of goods, and the ability to restock are restored, as well as on the level of demand before the forthcoming season.

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



Source: ICIS, Argus FMB, Profercy.

Average prices of nitrogen fertilizers

	Average 2018 EUR/t	Average 2019 EUR/t	y/y %	Dec 2019 EUR/t	MIN 2019 EUR/t	MAX 2019 EUR/t
CAN 27% Germany CIF inland (bulk)	197	190	3.7↓	170	170	219
AN 33.5% France, delivered (bulk)	281	274	2.8↓	232	232	308
	USD/t	USD/t	%	USD/t	USD/t	USD/t
Ammonia (FOB Yuzhny)	284	231	18.8↓	215	198	276
Urea (FOB Baltic)	247	239	3.2↓	209	209	266
Ammonium sulfate (Black Sea FOB white)	132	127	4.3↓	108	108	145

Source: ICIS, Argus FMB, Profercy.

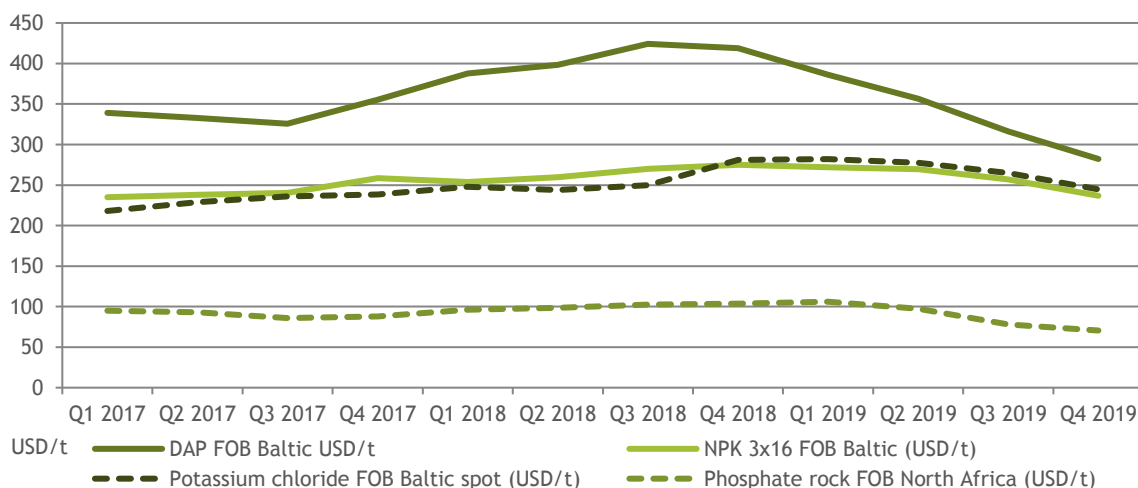
Market of compound fertilizers

Practically throughout 2019, prices of phosphate fertilizers on global markets followed a downward trend. At the end of the year, DAP fertilizer prices on the US NOLA and TAMPA markets were the lowest in 13 years. The weakening demand for phosphate fertilizers was driven by a number of factors, mainly the unclear trade relations between the US and China, a significant decline in demand for phosphate fertilizers in China and India, and record high DAP stocks in these countries. In response to the decline in demand, the leading Chinese manufacturers of phosphate fertilizers decided to cut their production by approximately 50% in Q3 and Q4 2019. Early in 2019, the North American market faced adverse weather conditions which in many cases constrained or even prevented phosphorus fertilization. A significant oversupply of phosphate fertilizers on the US market led to further price corrections at the end of 2019 and reduced exports to this market by key global producers.

In Q1 2019, demand for NPK fertilizers in many European countries was negligible. The second quarter saw the start of application of compound fertilizers, mainly in the UK and Ukraine. A significant shift in the balance of forces in the markets was also initiated. In Russia, a new plant was launched, increasing the output of mineral fertilizers to 840,000 tonnes per year. One of the largest Brazilian manufacturers, with an annual production capacity of 6.2m tonnes, closed several of its plants and distribution points. Ukraine introduced a duty on imports of fertilizers from Russia, and at the end of Q2 2019 the Ukrainian government announced another decree imposing, as of July 1st 2019, a complete embargo on fertilizer products with HS codes between 3102 and 3105.

Following these announcements, demand for Russian fertilizers increased, with the largest interest from medium-sized and large farms. Amid growing concerns over fertilizer shortages on the market, fertilizers were purchased in large volumes, pushing up prices in Ukraine. In Q3 2019, prices of compound fertilizers fell across many markets. In Poland, farmers postponed their purchases until the last minute, which resulted in a very low demand for compound fertilizers. In Q4 2019, the market weakened further, bringing about a price decrease in the Baltic Sea region. Russian producers successfully exported fertilizers to India, Brazil, as well as to Africa, Asia, Romania and the Balkans. Globally, interest in fertilizer purchases throughout the period under review was viewed as weak, and the market in most European countries was stable. Buyers checked the prices, but refrained from purchasing.

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



Source: WFM, FERTECON, Profercy.

Average prices of compound fertilizers and raw materials for their production

	Average 2018 USD/t	Average 2019 USD/t	y/y %	Dec 2019 USD/t	MIN 2019 USD/t	MAX 2019 USD/t
DAP (FOB Baltic)	407	335	17.6↓	268	268	402
NPK 3x16 (FOB Baltic)	265	259	2.1↓	223	223	275
Potassium chloride (FOB Baltic spot)	256	268	4.6	238	238	285
Phosphate rock (FOB North Africa)	100	88	12.4↓	71	71	106

Source: WFM, FERTECON, Profercy.

The weakening of the phosphate fertilizers market also affected phosphate-bearing feedstock for their production, as prices of phosphate rock and phosphoric acid fell year on year. The average benchmark prices of phosphate rock (North Africa, FOB) and phosphoric acid (West Europe, CFR) were approximately 12% and approximately 21% lower, respectively. A similar price correction (down by approximately 19% year on year) was recorded in the case phosphoric acid supplied to India.

In 2020, the market of phosphate fertilizers and main production inputs will be strongly correlated with the developments related to the coronavirus pandemic. On the one hand, the weather conditions now present in many areas of the world are conducive to intensive application of fertilizers, and this is what is in fact happening now, but, on the other hand, there can be serious logistical problems with the transport of products. The situation is very dynamic and there can be no assurance that due to the spread of the pandemic the production capacities of the principal global manufacturers will not be reduced. Due to the particular characteristics of fertilizers as a product, many countries (including China) do everything to make sure that they reach the target customers so that they are able to achieve the planned yields. However, the current situation may significantly upset the supply and demand balance.

In 2019, the average benchmark price of potassium chloride (Baltic SPOT FOB) was approximately 5% higher than in 2018. In the second half of 2019, the potassium chloride market was clearly weaker than in the first and second quarters of 2019. The spring application of fertilizers on the

northern hemisphere, especially in the US, was lower due to extremely unfavourable weather conditions, which translated into limited or delayed fertilization. Brazil was the only country which supported imports practically all year long, but at the end of the year, due to large stocks and lower interest in purchases in the final distribution channel, the prices of potassium chloride went down on that market as well. In response to the slump in demand, in Q4 2019 the main producers of potassium chloride reduced their total output by 2.8m tonnes, which is close to the value of typical Chinese quarterly imports. The production cut slightly curbed the price decrease, which was evident in the prices agreed in new contracts for potassium chloride supplies to India. The new price of USD 280/t CFR is only USD 10/t lower than the price under contracts for the 2018/2019 season. However, by signing contracts with effect only until the end of Q1 2020 India secured itself in case Chinese negotiations contribute to further declines in the price of potassium chloride in 2020. The main factor which will have a major impact on the potassium chloride market further into 2020 are the developments related to the coronavirus pandemic. In the event of further restrictions, closing of further internal markets, and logistical problems in maritime and national transport, demand may be expected to shrink in the second quarter, leading to further weakening of the market and lower prices of potassium chloride for the final customer. The situation in the coming months of the year will depend on developments in the fight against the pandemic, but any scenario is in fact possible.

PLASTICS

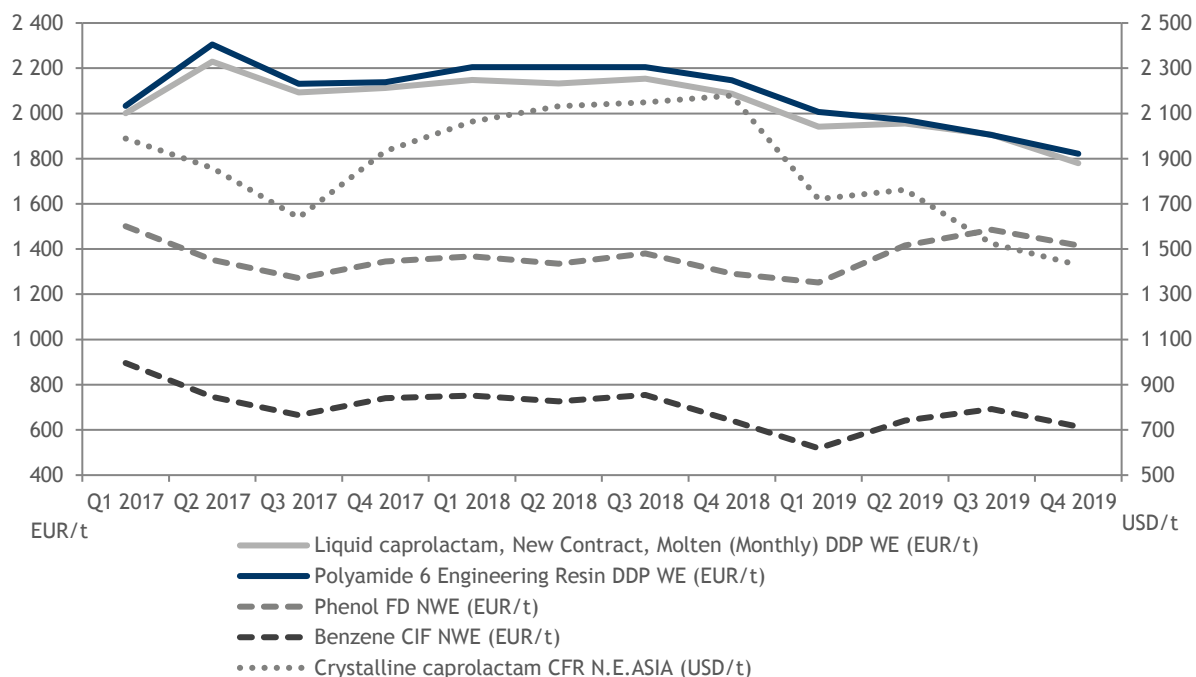
Polyamide 6 chain

2019 was a challenging period for the entire polyamide 6 product area. The market situation was under the strong impact of supply and demand forces. To a small extent, it was affected by fluctuations in crude oil prices, driving changes in prices of petroleum products. The European prices of petrochemical feedstocks (including benzene and phenol) during the year were driven by crude oil price movements and the global supply-demand balance.

During the year, short-term ups and downs in the prices of these raw materials could be observed, driven by market volatility (especially on the demand side). The most extreme example here was the contract price of benzene: the difference between the maximum and minimum monthly contract price of the product represented as much as 64% of its average price for the period under review. The average annual prices of benzene (CIF NWE) were down 14%, while the average annual prices of phenol were 3.7% higher than in 2018.

After a slight increase in Q2, caprolactam prices on the European market followed a downward trend until the end of the year. Also the prices of polyamide 6 were on the decline, due to significant supply and poor demand. Compared with 2018, the average annual price of Polyamide 6 on the European market (Engineering Resin Virgin DDP, WE) fell by 12.1% and the average annual price of liquid caprolactam (New Contract Molten, DDP, WE) fell by 11% year on year. On the Asian markets (CFR, NE Asia), the average annual price of caprolactam went down 24.5% year on year. In view of periodic increases and decreases in prices of raw materials, market participants faced tough price negotiations for caprolactam and Polyamide 6. This market situation continued practically throughout the year and manufacturers remained under pressure to curb margin erosion for both PA6 and caprolactam. The absence of an appropriate supply and demand balance made it impossible to link polyamide prices with production costs. Poor demand from end-user markets and oversupply were issues on which negotiations focused more than on changing production costs. Margins were compressed along the entire chain, and in the second half of 2019 both integrated and non-integrated manufacturers sought ways to maintain reasonable margins for both Polyamide 6 and caprolactam. In the European Polyamide 6 market, supply exceeded demand for most of 2019. Consequently, in order to maintain the balance, producers reduced their capacity utilisation. The production cuts were due to, among other factors, low profitability and non-integration of production. All these developments were accompanied by an economic downturn in the automotive sector, which started in the second half of 2018. Demand from other industries using Polyamide 6 (including the packaging, textile and electronic industries) was seen as stable but low.

Prices of PA6, caprolactam, benzene and phenol



Source: TECNON, ICIS.

Average prices of polyamide 6, caprolactam and raw materials used in their production

	Average 2018 EUR/t	Average 2019 EUR/t	y/y %	Dec 2019 EUR/t	MIN 2019 EUR/t	MAX 2019 EUR/t
Benzene (FOB NWE)	718	617	14.0↓	615	485	760
Phenol (FD NWE)	1,344	1,393	3.7	1,417	1,218	1,562
Caprolactam (Liq., DDP WE)	2,130	1,896	11.0↓	1,747	1,747	1,977
Polyamide 6 (PA 6) (DDP WE)	2,190	1,926	12.1↓	1,795	1,795	2,040
	USD/t	USD/t	%	USD/t	USD/t	USD/t
Caprolactam (CFR, NE Asia)	2,131	1,609	24.5↓	1,353	1,353	1,852
	USD/bbl	USD/bbl	%	USD/bbl	USD/bbl	USD/bbl
Crude oil (BRENT)	71.68	64.08	10.6↓	64.74	59.56	71.16

Source: ICIS, Tecnon, Rzeczpospolita.

In 2020, prices along the entire Polyamide 6 product chain will continue to be determined by two factors: the supply and demand balance in the plastics processing sector, combined with GDP growth, and the feedstock pressure. The developments on the Polyamide 6 application market are strongly driven by macroeconomic conditions as well as by the restructuring of the automotive industry, environmental directives, global political uncertainty (Brexit, US elections), the US-China trade war, the conflict between the US and Iran, and the likely economic downturn due to the coronavirus pandemic. Market participants indicate mixed outlooks for 2020. The expected slight improvement in consumption will depend on the level of stocks at processing companies. Increases in raw material prices during the first two months of 2020 will support caprolactam and PA6 prices but, given the likelihood of relatively low demand, producers will be unable to fully pass these increases on to customers.

The outbreak of the COVID-19 epidemic in China at the end of 2019 and its global spread are likely to decelerate global economic growth. Yet in the first quarter of 2020, the impact of the coronavirus pandemic on European countries will not be significant. In the coming months, the spread of the COVID-19 pandemic may disrupt the supply chains of raw materials and the sale of products, in particular to regions with a high risk of epidemic spreading. The COVID-19 pandemic and the crude oil price slump observed in March will decelerate many sectors of the economy. The automotive industry will be particularly affected as the temporary production shutdowns at most

European and US plants announced by leading car manufacturers will result in a drop in orders along the entire supply chain. At present, the pandemic's consequences and duration are difficult to estimate.

In the medium and long term, there will be several trends that will change the global development of the plastics market, namely changes in mobility solutions, sustainable development goals, consumers' growing environmental awareness, changes in regulations governing the use of plastics in packaging and growing recycling activity. The automotive industry is the key consumer of Polyamide 6. It is expected that improvements in car design based on aesthetic structural parameters, tough emission control standards and growing importance of weight reduction in reducing fuel consumption by vehicles will foster the automotive industry's demand for plastics, including PA6, in the coming years. Plastic manufacturers see significant potential in developing new technologies in the automotive industry, and in particular in the manufacture of parts or components for electric and hybrid cars.

CHEMICALS

OXO product chain

In 2019, the prices of 2-EH went down 12.2% year on year. The drop was mainly due to very weak demand in the second half of the year and the continued oversupply of the product on the market. The beginning of the year saw limited supply of alcohols on the European market after a major producer announced force majeure and a European manufacturer cut production volumes. Over Q1 2019 the situation gradually improved and in early February isobutanol was the only unavailable alcohol. Later in the year, there were no significant production problems at the OXO alcohol plants in Europe. In addition, imported alcohols (from Korea, Russia, Turkey and the US) started to appear on the market in growing volumes, at prices significantly lower than ICIS prices, further constraining sales opportunities. Demand for alcohols remained lower than forecast throughout 2019. At the end of the year, announcements were made of a possible increase in demand at the beginning of 2020 due to OXO alcohol processing industry's plans to restock.

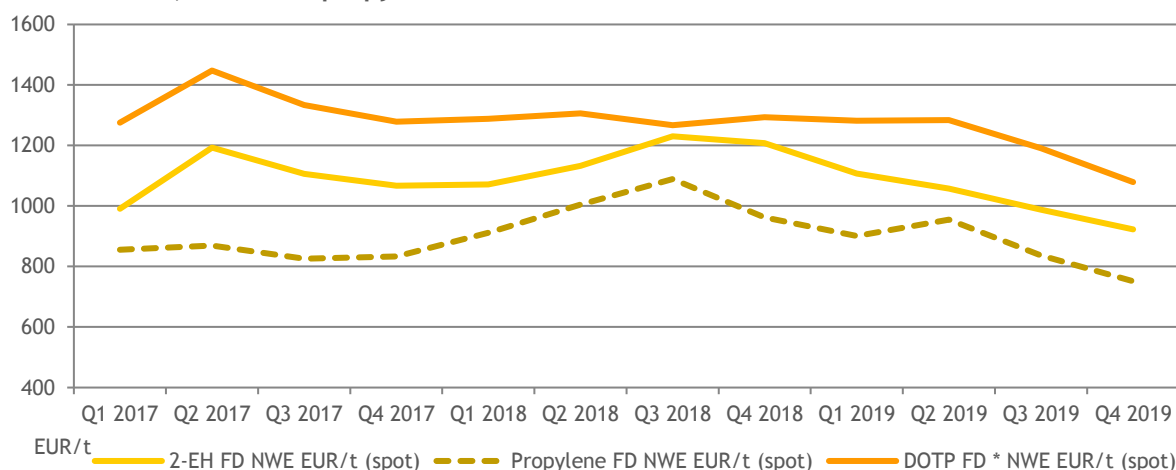
In 2019, the prices of DOTP were down 6.2% year on year. The supply of plasticizers in Europe was relatively solid, although at the beginning of the year there were periods when the volumes of DOTP supplied by European manufacturers were insufficient to fully meet demand despite DOTP imports. From the beginning of the second quarter, there was a gradual decline in demand for plasticizers, leading to a steady decrease in their prices. In addition, large volumes of imported plasticizers (from Korea, Russia, Turkey and the US) were placed on the market. At the end of the year, due to very low demand and prices, imports of these products into Europe dropped significantly.

The beginning of 2020 brought significant uncertainty regarding the demand for and prices of the OXO segment's products in view of the widespread coronavirus pandemic and further restrictions introduced in connection with the adverse circumstances. Many countries are introducing restrictions consisting in stopping the operation of companies which are not producers of strategic goods. Growing problems are also being experienced by the logistics industry, which may affect on-time delivery of both raw materials and finished goods. In addition, substantial declines in demand for crude oil and petroleum products result in major price cuts, potentially leading to lower prices of OXO products. According to the most recent forecasts, the situation will not improve before the second half of the year.

In 2019, spot prices of propylene were down 13.2% year on year, while contract prices of this raw material followed an upward trend in the first two quarters to gradually decrease to an average level below the prices recorded in 2018. In the case of propylene, supply and demand remained fairly stable. The demand was lower than projected, especially in the second half of the year. There was a significant oversupply on the market, prompting gradual price reductions. Another factor improving the availability of propylene was an increase in imports from the US compared with 2018. The propylene processing industry used mainly stocks accumulated in previous months and contract supplies, reducing spot purchases to a minimum.

In the coming months, sharp declines in market prices of propylene may be expected in connection with the coronavirus pandemic. The reason for the decline are falling prices of crude oil and kerosene amid waning demand for these products. According to the most recent forecasts, any improvement in the markets of crude oil and petrochemical products, such as propylene, cannot be expected before the second half of the year.

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.

Average prices of 2-EH, DOTP and propylene

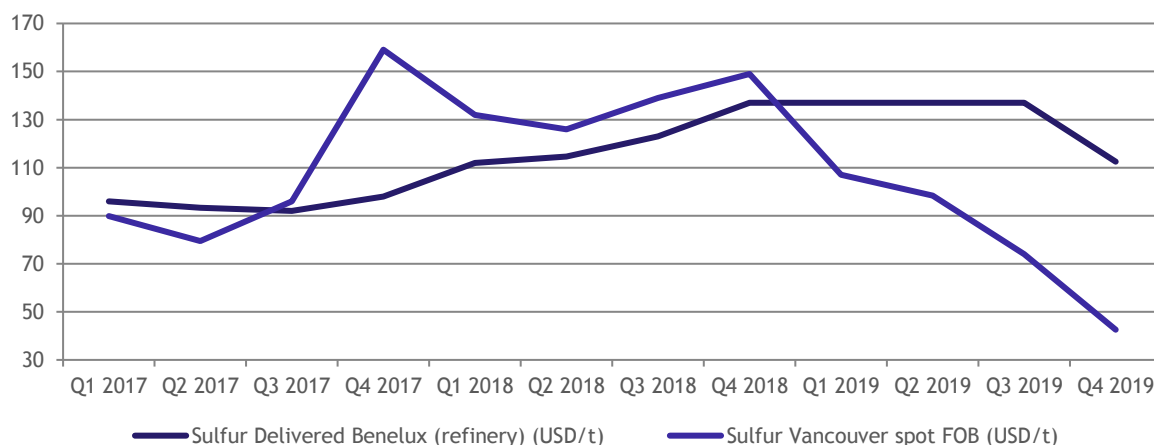
	Average 2018 EUR/t	Average 2019 EUR/t	y/y %	Dec 2019 EUR/t	MIN 2019 EUR/t	MAX 2019 EUR/t
2-EH (FD NWE spot)	1,160	1,019	12.2↓	915	915	1,148
DOTP (FD NWE spot)	1,288	1,209	6.2↓	1,050	1,050	1,294
Propylene (FD NWE spot)	992	861	13.2↓	711	711	987

Source: ICIS.

Sulfur

2019 was a difficult period for producers of prilled sulfur. Significant weakening of the phosphate fertilizers market depressed the market for sulfur, which is primarily used in the production of phosphoric acid and then DAP, MAP and NPK fertilizers. Year on year, the prices of prilled sulfur (FOB Vancouver SPOT) fell by approximately 41%. In China, a leading buyer of prilled sulfur, demand fell sharply and stocks at seaports rose to a record high already in the first months of 2019. The shrinking demand in China led to a rapid price plunge on global markets for prilled sulfur. Price declines on the European market for liquid sulfur were slightly lower. Compared with 2018, the average price of liquid sulfur (Benelux Delivered) was approximately 8% higher. Nonetheless, over 2019 the price of liquid sulfur fell by approximately 18%. On the one hand, to maintain higher prices as long as possible, producers pointed to the difficult supply situation in Europe (the problem with contaminated Russian crude oil, processing of higher volumes of oil with lower sulfur content, logistics problems on the Rhine river - one of the main liquid sulfur distribution channels, emergency shutdowns of refineries) while, on the other hand, customers pointed to price drops on prilled sulfur markets. Continued high prices of liquid sulfur could artificially push up production costs amid an overall downward trend in prices of phosphate fertilizers. Thus, in the fourth quarter of 2019, under pressure from the buyers, first price reductions for liquid sulfur were recorded on the Western European market. It is also important to mention the US liquid sulfur market, which is not subject to such supply constraints as the European market, and the prices on the Tampa market, which fell by approximately 57% in 2019, following an overall downward trend on the prilled sulfur market. Given the limited availability of suitable ships and the limited storage capacity at Western European ports, as well as high storage costs, liquid sulfur price drivers on the US market are not present on the European market.

Sulfur prices



Source: FERTECON.

Average prices of sulfur

	Average 2018 USD/t	Average 2019 USD/t	y/y %	Dec 2019 USD/t	MIN 2019 USD/t	MAX 2019 USD/t
Sulfur (Delivered Benelux refinery)	122	131	7.6	113	113	137
Sulfur (Vancouver spot FOB)	136	81	41.0↓	43	41	115

Source: FERTECON.

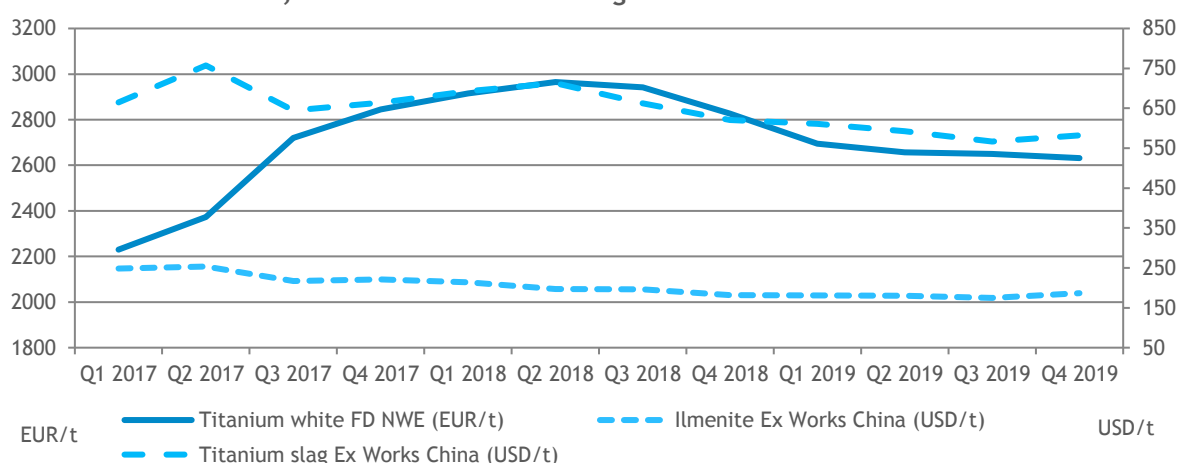
After price declines in Q4 2019, the European liquid sulfur market continues to follow a downward trend. A price correction occurred in Q1 2020. Given the coronavirus pandemic, the coming quarters may see disruptions in both supply and demand. In Q2 2020, a roll-over of liquid sulfur prices in Western Europe and higher prices of prilled sulfur are expected. However, analysts warn this may be a temporary reaction of the market. Potential production cuts by phosphate fertilizer manufacturers, which are the main buyers of sulfur, may have a strong impact on sulfur supply. On the other hand, crude oil processing and sulfur production may also be reduced. These developments are accompanied by overall logistical problems and their effect in freight availability and rates. All in all, this landscape may give rise to any scenarios, with both declines and increases in sulfur prices possible.

Pigment chain

In 2019, the average price of titanium white in Europe was EUR 2,658/tonne, down by 8.7% year on year. In H1 2019, prices of titanium white were on the decline across most of the global markets. The slump came as a continuation of the downward trend triggered in the second half of 2018 by imports of large volumes of pigment from China to Europe and as a result of declining demand due to a number of risk factors, such as the US-China trade war, Brexit, and the economic slowdown in the European Union, which ultimately led to an increase in customers' stocks. After two years without any seasonal fluctuations, the market again exhibited seasonality, which early in 2019 manifested itself in reduced demand for titanium white from the paints and coatings sector. The overall availability of TiO₂ produced using the sulfate process is higher than that obtained in the chloride process. The recovery began in the second quarter of the year, when a seasonal increase in demand occurred. The depreciation of the Chinese yuan and two series of price increases introduced by the Chinese producers at the beginning of the year led to a moderate decrease in demand for titanium white from China, while preventing major drops in titanium white prices in Europe. Prices were also affected by the price stabilisation programmes implemented by the largest global titanium white producers. However, the stabilisation was achieved at the expense of a year-on-year drop in sales volumes. Prices remained stable until the end of the third quarter. In the fourth quarter, following a seasonal decline in demand, Europe saw another round of price cuts. Apart from weather factors, the impact of unresolved trade war and Brexit issues, the economic downturn in the European Union and in the global automotive market still could be felt. At the end of 2019, the supply and demand balance was to some extent affected by the partial launch of new production capacities in Jiaozuo, China, with a total target annual capacity of 200,000 tonnes. The new capacities will increase the global supply potential for titanium white.

The rapid growth of the Chinese market is strengthening the position of Chinese producers of titanium white. As originally planned, by mid-2020 the second new production line is to be placed in service, increasing the annual production capacity in the region by another 100,000 tonnes. Europe will probably be the export market for both new lines. However, given the negative impact of coronavirus on the Chinese market, the completion of this investment project may be delayed. In addition, logistical constraints may have a temporary negative effect on imports. However, should the negative factors subside, imports of Chinese titanium white to the EU are likely to continue growing, which in the long term may upset both the EU and Polish titanium white markets. An important driver of price trends will be the economic situation on global markets. The economic downturn caused by the coronavirus may have an effect on the demand for titanium white in 2020, and the extent of this effect will be correlated with the escalation of the risk. The outlook for 2020 is mixed, all the more that the situation on the titanium white market depends on the condition of the markets using this product, in particular the construction market. In these markets, seasonal demand usually starts to rise at the end of the first quarter and falls in autumn as the construction season ends. Economic growth was expected to be slow until mid-2020. The reasons included the continuing macroeconomic uncertainty associated with Brexit, US-China trade war, the threat of recession in Germany, and the high supply and imports of goods from Asia affecting buyers' behaviour. The adverse consequences of the pandemic for global markets justify predicting a global recession.

Prices of titanium white, ilmenite and titanium slag



Source: ICIS, CCM.

Average prices of titanium white and raw materials for its production

	Average 2018 EUR/t	Average 2019 EUR/t	y/y %	Dec 2019 EUR/t	MIN 2019 EUR/t	MAX 2019 EUR/t
Titanium white FD NWE	2,912	2,658	8.7↓	2,625	2,625	2,735
	USD/t	USD/t	%	USD/t	USD/t	USD/t
Ilmenite Ex Works China	197	180	8.5↓	190	173	191
Titanium slag (Ex Works China)	672	588	12.5↓	591	566	616

Source: ICIS, CCM

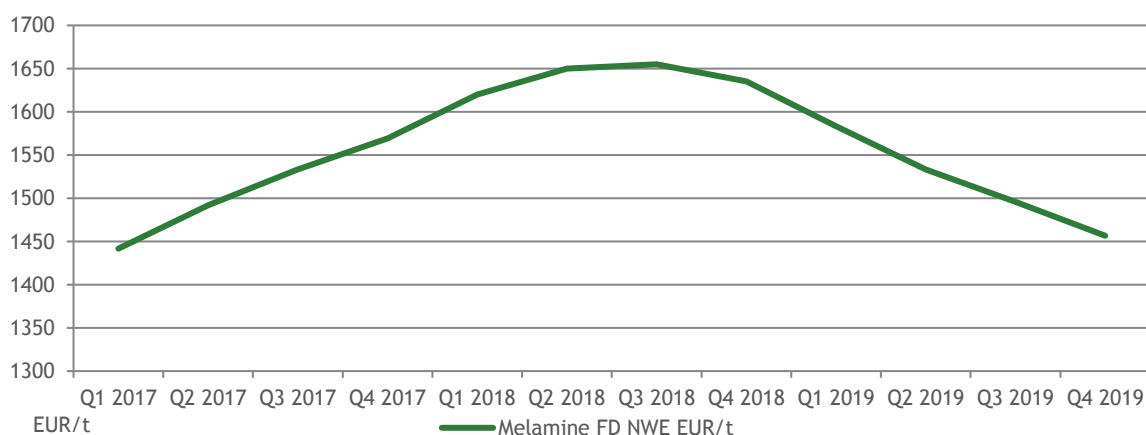
The decline in prices of titanium white persisting since mid-2018 has prompted a decrease in prices of ilmenite. On the representative Chinese market, the average price of ilmenite in 2019 was USD 180/tonne EXW, down by approximately 8.5% year on year. In Q2 2019, titanium white prices stabilised and ilmenite prices followed suit. Titanium slag is produced by smelting ilmenite with coke. As no investments are made in new furnaces, the titanium slag market is undersupplied, especially with respect to 74%-76% titanium slag used in the sulfate-based production of titanium white. Some of the manufacturers discontinued the production of titanium slag with a lower titanium content and switched to producing slags with a 90% or higher TiO₂ content, Given better sales margins achieved in chlorine-based production of titanium white. Thus, despite the falling prices of titanium white, the global price of titanium slag remains high.

As there are signals of growing demand for ilmenite, mainly from Chinese titanium white manufacturers, and investments in the production of titanium-bearing minerals are insufficient, ilmenite prices will most probably rise globally in the future.

Melamine

In 2019, the average melamine prices in Europe fell year on year: contract prices by 7.9% (EUR 130/tonne) on average, and spot prices by 16.9% (EUR 231/tonne). The main reasons behind the fall were lower demand on the US and Chinese markets due mainly to the slowdown in the automotive sector, significant oversupply in China aggravated by reduced demand from customers, and repair work at the facilities of Polish, Austrian, Dutch, Chinese and Japanese producers. Another important event was the launch of the second production line by an Indian producer, which significantly increased supply on the Indian market and reduced imports of melamine to India almost to zero.

Prices of melamine



Source: ICIS, Global Bleaching Chemicals.

Average prices of melamine

	Average 2018 EUR/t	Average 2019 EUR/t	y/y %	Dec 2019 EUR/t	MIN 2019 EUR/t	MAX 2019 EUR/t
Melamine	1,640	1,517	7.5↓	1,450	1,450	1,600

Source: ICIS, Global Bleaching Chemicals.

Analysts expect the demand for melamine resins to grow rapidly in 2020, especially on emerging markets. In addition, the economic conditions on the US market should improve slightly. On the other hand, due to a deterioration in the financing of investment projects in China, the Chinese market will be under pressure. Demand is also expected to weaken in Europe.

At present, in view of the coronavirus pandemic, there has been an increase in demand for European melamine from the markets normally served by Chinese producers. These are mainly countries such as Indonesia, India, Turkey. Prices of export melamine, mainly for the Indonesian market, have gone up. Due to a drop in Russia's imports from China, the rise in demand for melamine on the Russian market will cause a decrease in the availability of the product from Russia in March to April.

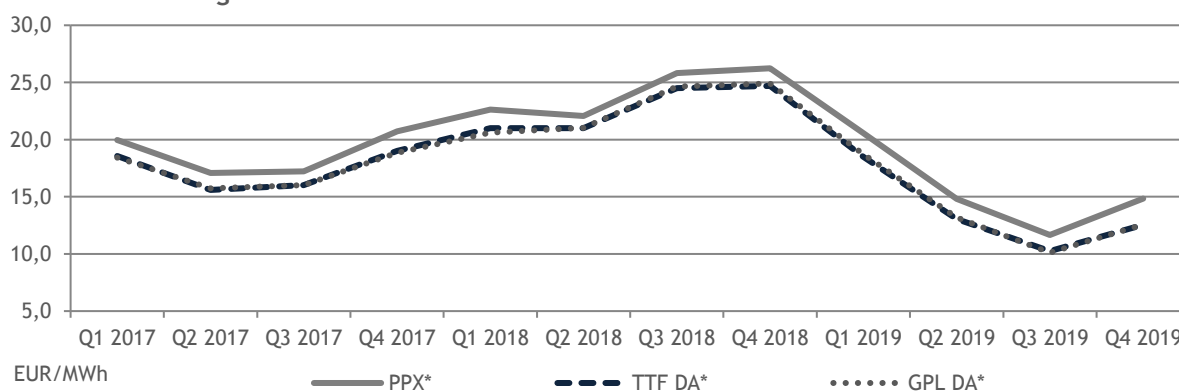
ENERGY

Natural gas

After two years of growth, 2019 was the period of decline in gas prices. Spot prices of gas on the TTF were above EUR 22/MWh at the beginning of the year. At the end of January, amid low demand due to temperatures well above the seasonal average and increasingly cheaper coal, gas prices went into a downward trend. As at the end of Q1 2019, gas price went down to EUR 14/MWh, and gas storage facilities in the European Union were filled up to 41% of their capacity, up 23% year on year. In the first half of April, we saw a strong price correction due to limited exports of gas from Russia and Norway, colder weather in Western Europe and increasingly more expensive crude oil. The price of gas rose by about EUR 3.5/MWh, to fall again at the end of the first half of 2019 to below EUR 10/MWh. What pushed gas prices down was strong supply (especially LNG supplies to Europe getting higher each month), as well as a high rate of gas injection into storage facilities. Due to LNG oversupply and a steep correction of LNG prices in the Pacific region (new liquefaction capacities

and mild winter also in Asia), LNG supplies to Europe were more advantageous to suppliers from the Atlantic region and remained at record high levels. Also prices of coal, which became less competitive than gas for the power sector, declined strongly due to slump in demand, driving a decline in gas prices. As at the end of June, gas storage facilities in Europe were filled up to 73% of their capacity. The first half of July saw a price correction. The price of gas rose by EUR 4/MWh, driven by higher prices of CO₂ emission allowances (reaching almost EUR 30/MWh), maintenance shutdown of the Yamal pipeline, unplanned disruptions of gas supplies from Norway and growing demand from gas-fired power plants. However, the fundamental factors underlying supply and demand remained largely unchanged. LNG supplies almost doubled year on year, making up for shortages in gas supplied via pipelines, while gas stocks continued to grow steadily. Much higher prices in futures contracts were conducive to gas storage. A strong price correction trigger came from the market of crude oil, whose price went down. In response, China imposed retaliatory duties and devalued the yuan. Energy carrier markets came under negative pressures related to concerns about the deteriorating condition of the global economy. In consequence, in early September spot prices of gas at the Gaspool hub fell to EUR 7.1/MWh, a record low in ten years. In the subsequent two months, fluctuations on the gas market were observed as prices changed by EUR 3/MWh over a week to start to pick up slowly with the inflow of negative information. The Netherlands announced that production from the Groningen field will be reduced in the coming year to 12bcm and completely discontinued in mid-2022. Gazprom reduced transmission over the Nord Stream pipeline after it had lost some of the OPAL pipeline transmission capacity. The prices of crude oil and coal rose as Saudi Arabia refineries were hit in a drone attack. In November, the spot price of gas suddenly rose by a half, to approximately EUR 17/MWh at the end of the month. The price increase was due to relatively low temperatures, poor wind conditions, unplanned reduction of gas supplies from Norway, and the shutdown of several nuclear reactors in France for inspection after seismic shocks. This was accompanied by a growing uncertainty about further gas transit through Ukraine, leading to a contango on the market, which was additionally conducive to maintaining high levels of stocks. As at the end of November, gas storage facilities in Germany were filled to 98.8% of their capacity. December saw a correction of previous growth: spot prices of gas went into a steep decline and under forward contracts their decline was even sharper. High stocks, contracted LNG supplies, most long-term forecasts showing that the beginning of winter would be warmer than usual, and the usual decline in gas demand in the Christmas season put an increasing pressure on gas prices. The announcement of the agreement reached between Russia and Ukraine triggered a sharp price drop in the last ten days of December, in particular under forward contracts. Gas prices at the Gaspool spot delivery market were at around EUR 12.5/MWh at the end of the year.

Prices of natural gas



* Excluding transmission.

Source: PGNiG tariff, ICIS.

Average prices of natural gas

	Average 2018 EUR/MWh	Average 2019 EUR/MWh	y/y %	Dec 2019 EUR/MWh	MIN 2019 EUR/MWh	MAX 2019 EUR/MWh
TTF DA *	22.8	13.6	40.4↓	13.11	9.7	21.6
GPL DA*	22.8	13.6	40.1↓	13.32	9.4	21.7
PPX*	24.2	15.5	36.0↓	15.96	11.4	23.9

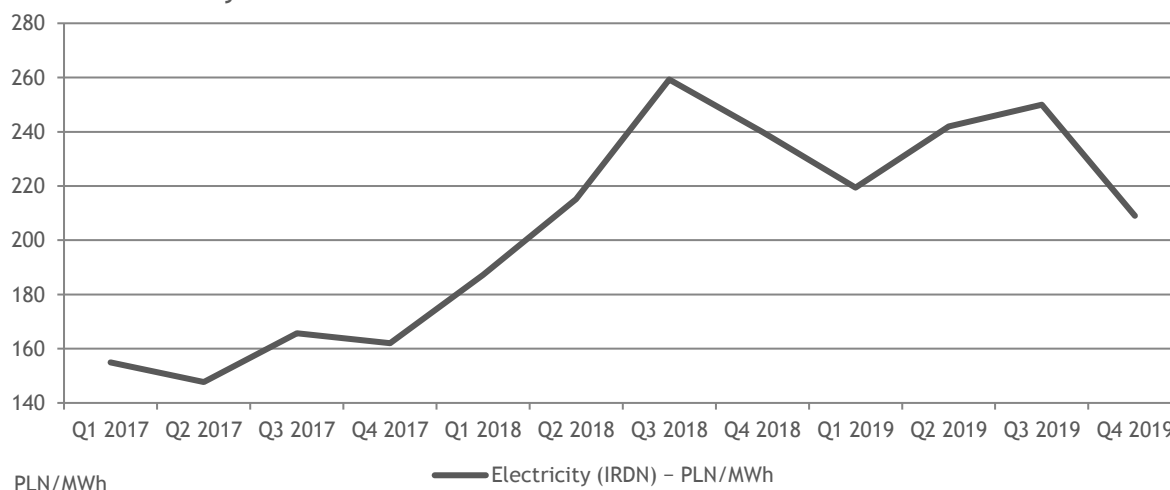
* Excluding transmission.

Source: PGNiG tariff, ICIS.

In the coming months, contracted LNG supplies and high levels of stocks will continue to put strong pressure on gas prices. In addition, according to long-term forecasts for Europe, temperatures towards the end of winter will be above their long-term averages. The increase in global natural gas liquefaction capacity, announced for Q2 2020, may still exceed the increase in demand outside Europe. With LNG oversupply, prices in Asia remain at a level which gives US LNG suppliers a lower rate of return than that achievable on the European market. As a result, spot deliveries from the Atlantic region will be directed to Europe, which should help maintain gas prices in Europe at relatively low levels. Accordingly, the average price of gas in 2020 is expected to be lower than in the previous year. In practice, the only source of risk of potential price increases on the gas market are geopolitical developments. On the other hand, the spread of the coronavirus pandemic may have unforeseeable consequences for energy carrier markets and result in higher-than-expected gas price declines.

Electricity

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 prices of electricity

	Average 2018 PLN/MWh	Average 2019 PLN/MWh	y/y %	Dec 2019 PLN/MWh	MIN 2019 PLN/MWh	MAX 2019 PLN/MWh
Electricity	225.20	229.59	1.9	184.8	76.9	335.7

Source: The Polish Power Exchange.

In Q4 2019, the average electricity prices fell by more than 17% quarter on quarter and by more than 13% year on year. Average annual prices of electricity remained close to the 2018 levels. The price level was mainly driven by higher prices of CO₂ emission allowances, high temperatures, as well as a change in the structure of energy sources. The Polish market is largely affected by climate regulations, the legal regime, as well as the need to continue upgrading generation capacities (expenditure on new capacities) and to maintain the operating capacity reserve (effect on production costs).

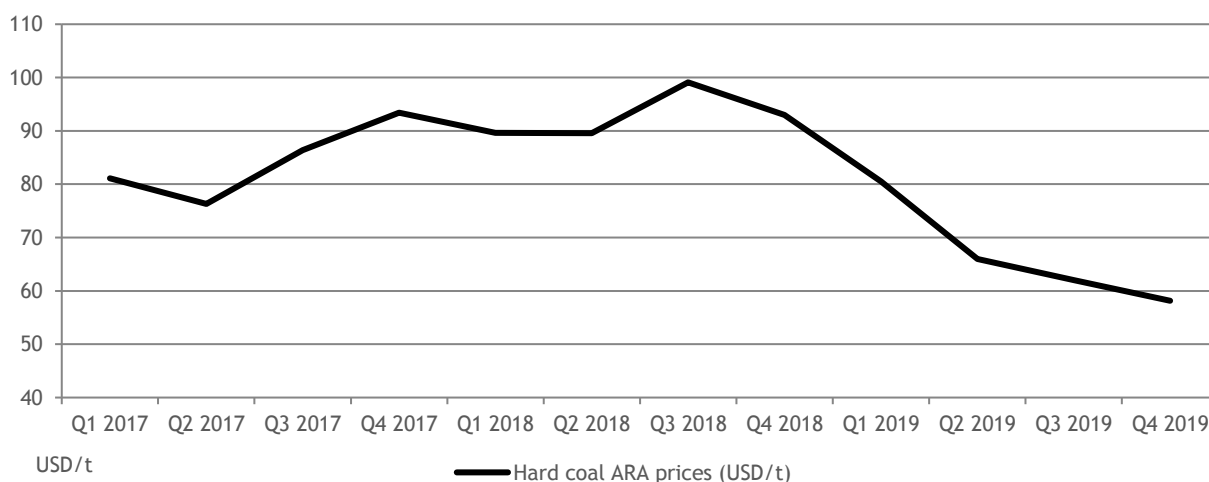
Electricity prices will be driven by the following factors:

- Fluctuations in prices of coal on global and domestic markets;
- Changes to the RES support system;
- Legal regulations to reduce electricity prices (excise duty, compensation for higher prices of CO₂ emission units, reduction of transition charge);
- Increasingly widespread use of energy efficient solutions leading to reduced electricity consumption;
- volatility of EUA prices (it was only in Q4 2019 that the prices fell).

Also and in this area, the impact of the pandemic will be felt. The consequences of the steps taken to prevent the spread of the virus are difficult to estimate. A lot will depend on measures taken by governments to protect citizens and economies. Another important factor is the time when an economic recovery occurs, braining back demand for energy commodities.

Coal

Prices of hard coal



Source: ARA prices.

Average prices of hard coal

	Average 2018 USD/t	Average 2019 USD/t	y/y %	Dec 2019 USD/t	MIN 2019 USD/t	MAX 2019 USD/t
Coal	92.23	67.34	27.0↓	57.30	52.75	88.55

Source: ARA prices.

Q4 2019 saw a continuation of the downward trend that began in H2 2018. The average coal prices fell by more than 37% year on year, to reach the period's low of USD 52.75/t (i.e. the record low from mid-2016) at the end of the quarter. In 2019, the average annual price fell 27% year on year. The current situation on the international coal market is described as highly volatile. The prices are under downward pressure, driven by the level of stocks held in Europe and the European policy of reducing coal consumption in favour of gas, which is becoming more accessible and attractively priced on the European market. The effect of the ongoing coronavirus pandemic, leading to limitation or closure/discontinuation of some forms of production and services also plays a part here.

5.3. Key financial and economic data

5.3.1. Consolidated financial information

In 2019, the Group earned a positive EBITDA of PLN 1,424,110 thousand and net profit of PLN 407,673 thousand.

Year on year, EBITDA and net profit increased by PLN 659,668 thousand and PLN 399,913 thousand, respectively.

Consolidated data

	2019	2018	change	% change
Revenue	11,307,915	9,998,967	1,308,948	13.1
Cost of sales	(8,833,939)	(8,406,271)	(427,668)	5.1
Gross profit	2,473,976	1,592,696	881,280	55.3
Selling and distribution expenses	(902,195)	(658,602)	(243,593)	37.0
Administrative expenses	(886,734)	(812,368)	(74,366)	9.2
Profit on sales	685,047	121,726	563,321	462.8
Net other expenses	(72,223)	(40,582)	(31,641)	78.0
Operating profit	612,824	81,144	531,680	655.2
Net finance income/(costs)	(66,858)	(53,683)	(13,175)	24.5
Share of profit of equity-accounted investees	12,493	13,092	(599)	(4.6)
Profit before tax	558,459	40,553	517,906	1,277.1
Income tax	(150,786)	(32,793)	(117,993)	359.8
Net profit	407,673	7,760	399,913	5,153.5
EBIT	612,824	81,144	531,680	655.2
Depreciation and amortisation	811,286	683,298	127,988	18.7
EBITDA	1,424,110	764,442	659,668	86.3

Source: Company data.

With revenue up 13.1% year on year and cost of sales growing at a lower rate (up 5.1%), the Group reported a gross profit. The 2019 gross profit improved by PLN 881,280 thousand relative to 2018.

Gross profit net of distribution costs and administrative expenses was PLN 685,047 thousand, up by PLN 563,321 thousand on 2018.

In 2019, the balance of other income and other expenses was negative at PLN (72,223) thousand, slightly reducing EBIT, to PLN 612,824 thousand.

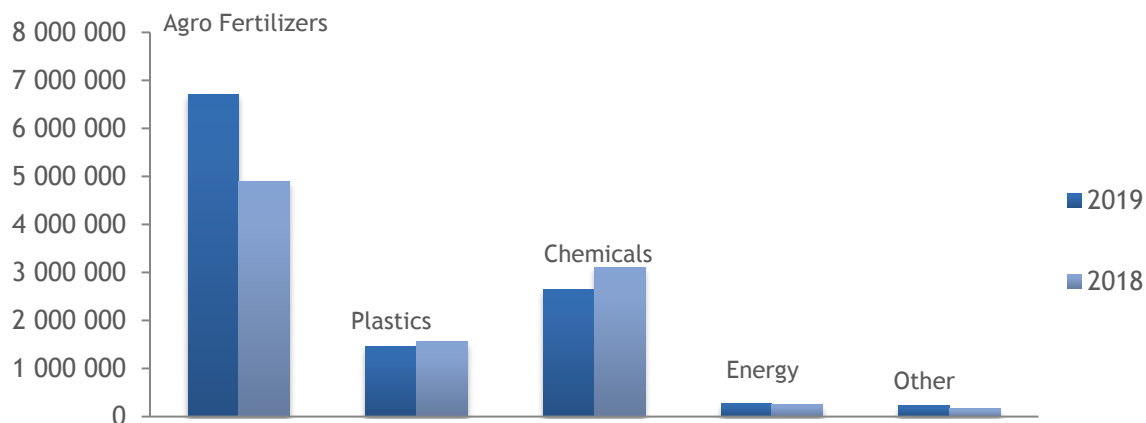
5.3.2. Segments' consolidated financial information

EBIT by segment

	Agro Fertilizers	Plastics	Chemicals	Energy	Other Activities
External revenue	6,715,745	1,456,487	2,638,885	273,660	223,138
Profit/(loss) on sales	639,352	2,979	120,764	(12,890)	(65,158)
EBIT	640,069	(633)	93,291	(11,007)	(108,896)

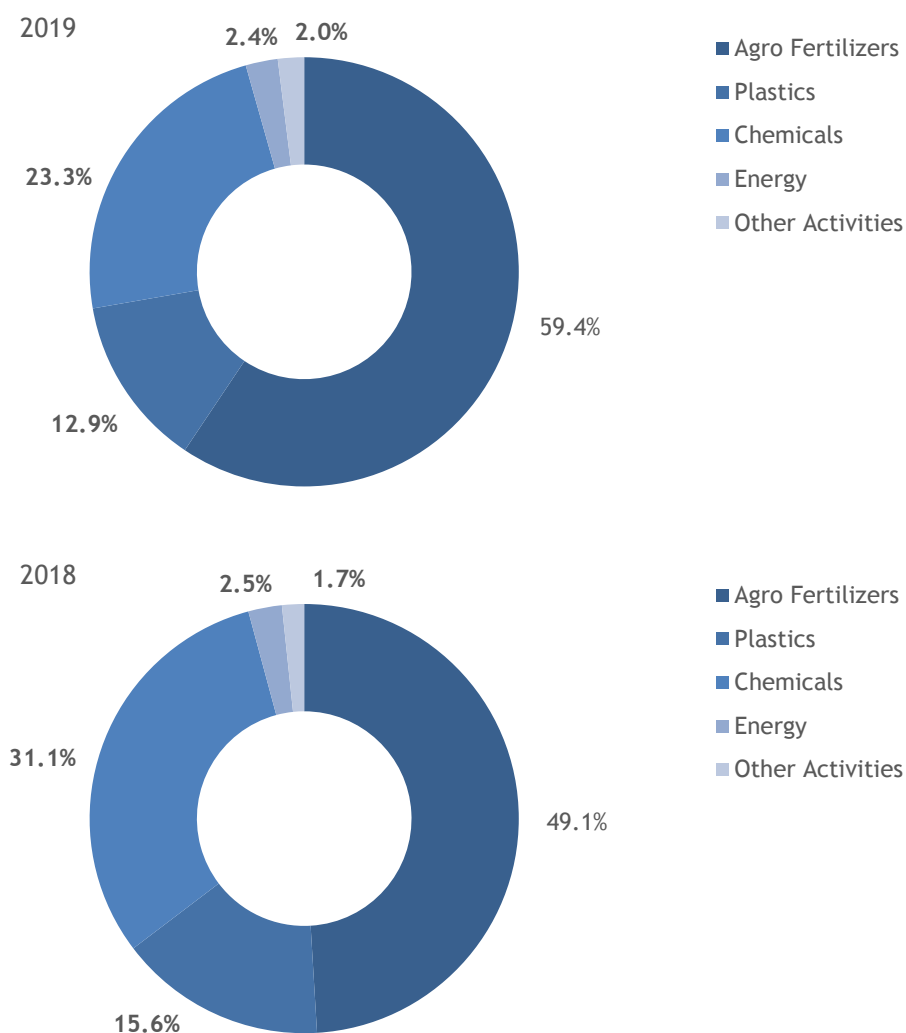
Source: Company data.

Revenue by segment



Source: Company data.

Revenue by segment



Source: Company data.

Agro Fertilizers

In 2019, revenue in the Agro Fertilizers segment came in at PLN 6,715,745 thousand and accounted for 59.4% of the Group's total revenue. Year on year, the segment's revenue went up by 36.9% and its share in the Parent's revenue rose by 10.3pp.

EBIT reported by the Agro Fertilizers segment was positive.

Sales on the domestic market accounted for approximately 58.3% of the segment's revenue.

Plastics

Revenue in the Plastics segment was PLN 1,456,487 thousand and accounted for 12.9% of the Group's total revenue. The segment's revenue was down 6.7% year on year and its share in total revenue fell by 2.7pp.

EBIT reported by the Plastics segment was negative.

More than 87.7% of the segment's revenue was derived from sales on foreign markets.

Chemicals

In 2019, the amount of revenue in the Chemicals segment was PLN 2,638,885 thousand, having decreased by 15.3% year on year. The segment's revenue accounted for 23.3% of the Group's total revenue, having shrank by 7.8pp.

EBIT reported by the Chemicals segment was positive.

Sales on foreign markets accounted for approximately 57.8% of the Chemicals segment's revenue.

Energy

In 2019, revenue in the Energy segment was PLN 273,660 thousand and accounted for approximately 2.4% of the Parent's total revenue. The segment's revenue increased 8.2% year on year.

EBIT reported by the Energy segment was negative.

Other Activities

In 2019, revenue in the Other Activities segment was PLN 223,138 thousand and accounted for 2.0% of total revenue, having increased by 34.1% relative to 2018.

The segment's EBIT was negative in 2019.

5.3.3. Structure of consolidated operating expenses

In 2019, operating expenses reached PLN 10,546,316 thousand, having increased by PLN 679,744 thousand year on year. All items of operating expenses went up by a total of 6.9% compared with 2018.

Operating expenses by nature of expense

	2019	2018	change	% change
Depreciation and amortisation	806,802	680,996	125,806	18.5
Raw materials and consumables used	6,155,810	6,122,652	33,158	0.5
Services	1,155,945	1,032,262	123,683	12.0
Salaries and wages, including surcharges, and other benefits	1,795,144	1,475,653	319,491	21.7
Taxes and charges	465,146	422,560	42,586	10.1
Other expenses	167,469	132,449	35,020	26.4
Total	10,546,316	9,866,572	679,744	6.9

Source: Company data.

Other operating expenses

In 2019, other operating expenses, excluding raw materials and consumables used, accounted for 41.6% of total operating expenses, compared with 37.9% in 2018. The structure of these expenses changed only slightly relative to the comparative period.

Structure of other operating expenses [%]

	2019	2018
Depreciation and amortisation	7.7	6.9
Services	11.0	10.5
Salaries and wages, including surcharges, and other benefits	17.0	15.0
Taxes and charges	4.4	4.3
Other expenses	1.6	1.3
Total	41.6	37.9

Source: Company data.

5.3.4. Structure of consolidated assets, equity and liabilities

In 2019, the Group's assets rose to PLN 15,478,691 thousand, by PLN 1,212,679 thousand relative to the end of 2018. As at December 31st 2019, non-current assets were PLN 10,705,437 thousand, and current assets were PLN 4,773,254 thousand.

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

- PLN 385,680 thousand increase in property, plant and equipment,
- PLN 63,390 thousand decrease in intangible assets,
- PLN 164,785 thousand increase in inventories,
- PLN 63,834 thousand increase in trade and other receivables,
- PLN 76,445 thousand decrease in cash.

Structure of assets

	2019	2018*	change	% change
Non-current assets, including:	10,705,437	9,993,114	712,323	7.1
Property, plant and equipment	8,142,751	7,757,071	385,680	5.0
Intangible assets	985,071	1,048,461	(63,390)	(6.0)
Goodwill	308,589	311,280	(2,691)	(0.9)
Other receivables	156,867	185,397	(28,530)	(15.4)
Current assets, including:	4,773,254	4,272,898	500,356	11.7
Inventories	1,669,809	1,505,024	164,785	10.9
Trade and other receivables	1,615,486	1,551,652	63,834	4.1
Cash and cash equivalents	770,087	846,532	(76,445)	(9.0)
Property rights	474,133	261,767	212,366	81.1
Other financial assets	174,724	15,061	159,663	1,060.1
Total assets	15,478,691	14,266,012	1,212,679	8.5

* Financial data restated in accordance with the information presented in section 2.1.b of the Notes to the consolidated financial statements.

Source: Company data.

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

- PLN 365,988 thousand increase in equity,
- PLN 401,340 thousand increase in lease liabilities,
- PLN 361,460 thousand increase in other financial liabilities.

Structure of equity and liabilities

	2019	2018	change	% change
Equity	7,693,947	7,327,959	365,988	5.0
Non-current liabilities, including:	4,288,382	3,662,586	625,796	17.1
Borrowings	2,546,003	2,488,353	57,650	2.3
Employee benefit obligations	469,351	394,677	74,674	18.9
Deferred tax liabilities	461,124	448,600	12,524	2.8
Lease liabilities	367,482	16,806	350,676	2,086.6
Other financial liabilities	18,357	21,930	(3,573)	(16.3)
Current liabilities, including:	3,496,362	3,275,467	220,895	6.7
Trade and other payables	2,516,567	2,598,289	(81,722)	(3.1)
Other financial liabilities	554,305	189,272	365,033	192.9
Borrowings	205,908	362,620	(156,712)	(43.2)
Lease liabilities	59,530	8,866	50,664	571.4
Employee benefit obligations	53,270	45,630	7,640	16.7
Total equity and liabilities	15,478,691	14,266,012	1,212,679	8.5

* Financial data restated in accordance with the information presented in section 2.1.b of the Notes to the consolidated financial statements.

Source: Company data.

5.3.5. Consolidated financial ratios

Profitability ratios [%]

	2019	2018
Gross profit margin	21.9	15.9
EBIT margin	5.4	0.8
EBITDA margin	12.6	7.6
Net profit margin	3.6	0.1
ROA	2.6	0.1
ROCE	5.1	0.7
ROE	5.3	0.1
Return on non-current assets	3.8	0.1

Source: Company data.

Ratio formulas:

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

EBIT margin = EBIT / revenue

EBITDA margin = EBITDA / 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

	2019	2018
Current ratio	1.4	1.3
Quick ratio	0.9	0.8
Cash ratio	0.3	0.3

Source: Company data.

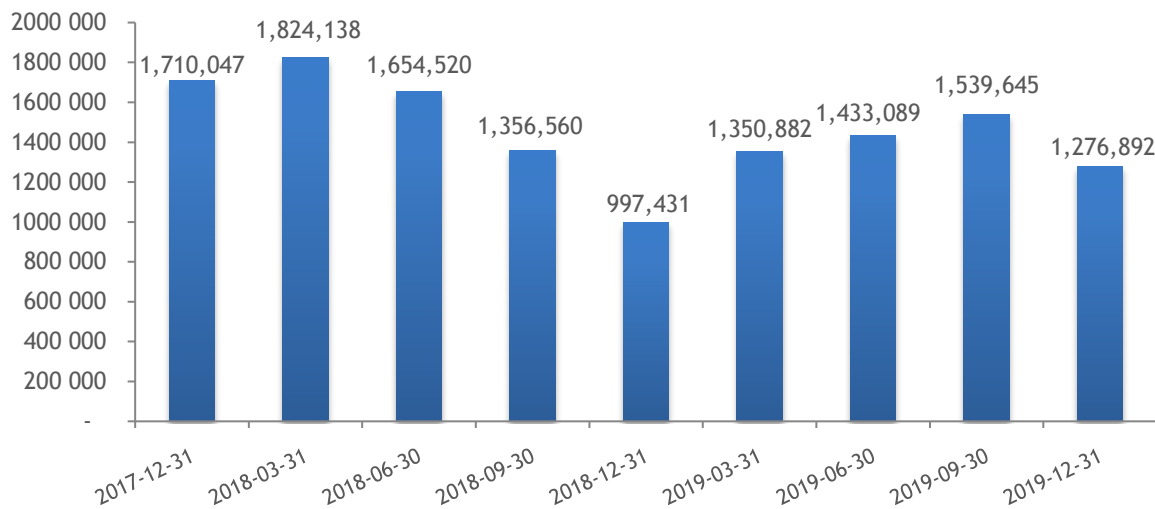
Ratio formulas:

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.

Operational efficiency ratios

	2019	2018
Inventory turnover	68	64
Average collection period	51	56
Average payment period	104	112
Cash conversion cycle	16	9

Source: Company data.

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	2019	2018
Total debt ratio	50.3	48.6
Long-term debt ratio	27.7	25.7
Short-term debt ratio	22.6	23.0
Equity-to-debt ratio	98.8	105.6
Interest cover ratio	749.3	182.3

Source: Company data.

Ratio formulas:

Total debt ratio = total liabilities / total assets

Long-term debt ratio = non-current liabilities / total assets

Short-term debt ratio = current liabilities / total assets

Equity-to-debt ratio = equity / current and non-current liabilities

Interest cover ratio = (profit before tax + interest expense) / interest expense

5.3.6. Separate financial data

In 2019, the Parent earned a positive EBITDA of PLN 223,755 thousand and net profit of PLN 58,249 thousand.

Year on year, EBITDA was higher by PLN 63,784 thousand and the net profit fell by PLN 112,815 thousand.

Separate financial data

	2019	2018	change	% change
Revenue	1,987,039	1,825,771	161,268	8.8
Cost of sales	(1,588,371)	(1,499,486)	(88,885)	5.9
Gross profit	398,668	326,285	72,383	22.2
Selling and distribution expenses	(105,391)	(96,713)	(8,678)	9.0
Administrative expenses	(193,340)	(169,523)	(23,817)	14.0
Profit on sales	99,937	60,049	39,888	66.4
Net other expenses	(10,710)	(12,288)	1,578	(12.8)
Operating profit	89,227	47,761	41,466	86.8
Net finance income	16,421	135,544	(119,123)	(87.9)
Profit before tax	105,648	183,305	(77,657)	(42.4)
Income tax	(47,399)	(12,241)	(35,158)	287.2
Net profit	58,249	171,064	(112,815)	(65.9)
EBIT	89,227	47,761	41,466	86.8
Depreciation and amortisation	134,528	112,210	22,318	19.9
EBITDA	223,755	159,971	63,784	39.9

Source: Company data.

With revenue up 8.8% and cost of sales up 5.9% year on year, the Parent reported a gross profit of PLN 398,668 thousand, up by PLN 72,383 thousand on 2018.

Despite higher administrative expenses and net other expenses, the Parent reported an operating profit of PLN 89,227 thousand. Net profit was ultimately affected by income tax of PLN 47,399 thousand.

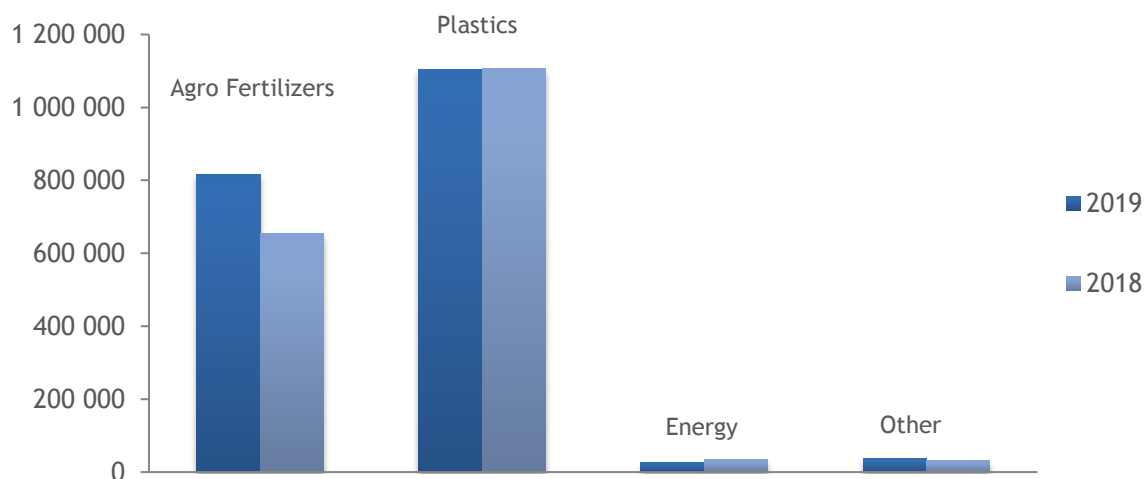
5.3.7. Separate financial data by segment

EBIT by segment

	Agro Fertilizers	Plastics	Energy	Other Activities
External revenue	816,828	1,105,273	26,811	38,127
Profit/(loss) on sales	72,212	24,973	(2,424)	5,176
EBIT	71,758	19,844	(5,847)	3,472

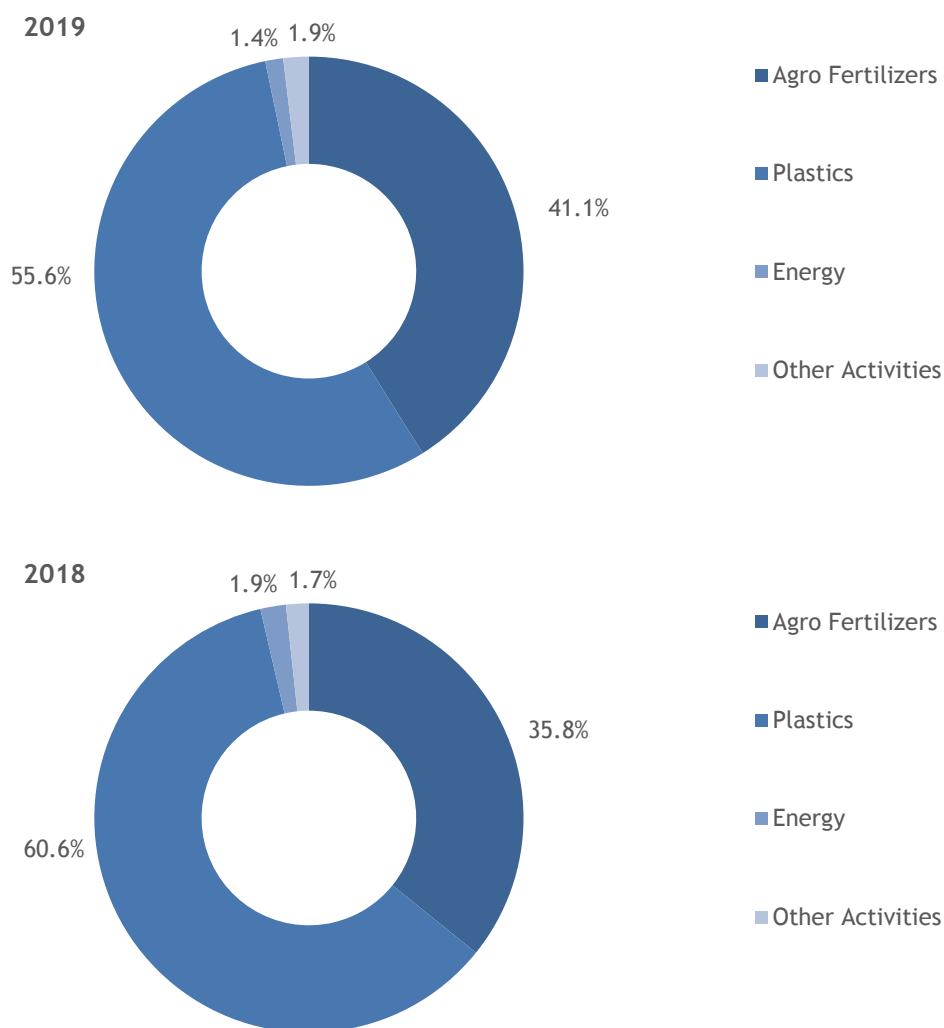
Source: Company data.

Revenue by segment



Source: Company data.

Revenue by segment



Source: Company data.

Agro Fertilizers

In 2019, revenue in the Agro Fertilizers segment was PLN 816,828 thousand and accounted for 41.1% of the Parent's total revenue. Year on year, the segment's revenue went up by 25.0% and its share in the Parent's revenue rose by 5.3pp.

EBIT reported by the Agro Fertilizers segment was positive.

Sales on the domestic market accounted for approximately 68.1% of the segment's revenue.

Plastics

In 2019, revenue in the Plastics segment was PLN 1,105,273 thousand and accounted for 55.6% of the Parent's total revenue. Year on year, the value of revenue remained almost unchanged.

The Plastics segment recorded a positive EBIT.

More than 83.9% of the segment's revenue was derived from sales on foreign markets.

Energy

In 2019, revenue in the Energy segment was PLN 26,811 thousand and accounted for approximately 1.4% of the Parent's total revenue. Year on year, the segment's revenue decreased by (23.5%).

EBIT reported by the Energy segment was negative.

Other Activities

In 2019, revenue in the Other Activities segment was PLN 38,127 thousand and accounted for 1.9% of total revenue, having increased by 21.8% relative to 2018.

The segment's EBIT was negative in 2019.

5.3.8. Structure of separate operating expenses

In 2019, operating expenses reached PLN 1,791,239 thousand, having increased by PLN 15,487 thousand year on year. The largest increase was recorded in depreciation and amortisation as well as taxes and charges.

Operating expenses by nature of expense

	2019	2018	change	% change
Depreciation and amortisation	133,120	111,008	22,112	19.9
Raw materials and consumables used	1,067,488	1,107,046	(39,558)	(3.6)
Services	258,071	253,246	4,825	1.9
Salaries and wages, including surcharges, and other benefits	232,172	213,634	18,538	8.7
Taxes and charges	72,547	52,701	19,846	37.7
Other expenses	27,841	38,117	(10,276)	(27.0)
Total	1,791,239	1,775,752	15,487	0.9

Source: Company data.

Other operating expenses

In 2019, other operating expenses, excluding raw materials and consumables used, accounted for 40.4% of total operating expenses, compared with 37.7% in 2018. Relative to the comparative period, the share of other expenses decreased, and the structure of other operating expenses changed slightly.

Structure of other operating expenses [%]

	2019	2018
Depreciation and amortisation	7.4	6.3
Services	14.4	14.3
Salaries and wages, including surcharges, and other benefits	13.0	12.0
Taxes and charges	4.1	3.0
Other expenses	1.5	2.1
Total	40.4	37.7

Source: Company data.

5.3.9. Structure of separate assets, equity and liabilities

In 2019, the Parent's assets increased to PLN 9,240,393 thousand, i.e. by PLN 636,748 thousand relative to the end of 2018. As at December 31st 2019, non-current assets were PLN 7,490,721 thousand, and current assets were PLN 1,749,672 thousand.

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

- a 7.9% increase in shares,
- a 15.7% increase in cash and cash equivalents,
- 2.7% decrease in trade and other receivables.

Structure of assets

	2019	2018*	change	% change
Non-current assets, including:	7,490,721	7,034,158	456,563	6.5
Shares	5,410,006	5,012,908	397,098	7.9
Property, plant and equipment	1,661,561	1,650,232	11,329	0.7
Other financial assets	292,001	285,626	6,375	2.2
Current assets, including:	1,749,672	1,569,487	180,185	11.5
Cash and cash equivalents	1,158,379	1,000,980	157,399	15.7
Inventories	251,022	246,106	4,916	2.0
Trade and other receivables	232,229	238,558	(6,329)	(2.7)
Total assets	9,240,393	8,603,645	636,748	7.4

* Financial data restated in accordance with the information presented in section 2.2 of the Notes to the separate financial statements.

Source: Company data.

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

- increase in current and non-current liabilities under borrowings,
- increase in non-current lease liabilities,
- 7.2% increase in trade and other payables,
- 154.9% increase in other current financial liabilities.

Structure of equity and liabilities

	2019	2018*	change	% change
Equity	4,840,630	4,788,188	52,442	1.1
Non-current liabilities, including:	2,615,741	2,457,929	157,812	6.4
Borrowings	2,413,532	2,311,248	102,284	4.4
Employee benefit obligations	64,080	51,289	12,791	24.9
Government grants received	47,048	40,666	6,382	15.7
Lease liabilities	38,962	1,695	37,267	2,198.6
Provisions	31,619	31,069	550	1.8
Current liabilities, including:	1,784,022	1,357,528	426,494	31.4
Borrowings	1,118,985	893,947	225,038	25.2
Trade and other payables	378,443	352,908	25,535	7.2
Other financial liabilities	262,879	103,122	159,757	154.9
Total equity and liabilities	9,240,393	8,603,645	636,748	7.4

* Financial data restated in accordance with the information presented in section 2.2 of the Notes to the separate financial statements.

Source: Company data.

5.3.10. Separate financial ratios

Profitability ratios [%]

	2019	2018
Gross profit margin	20.1	17.9
EBIT margin	4.5	2.6
EBITDA margin	11.3	8.8
Net profit margin	2.9	9.4
ROA	0.6	2.0
ROCE	1.2	0.7
ROE	1.2	3.6
Return on non-current assets	0.8	2.4

Source: Company data.

Ratio formulas:

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

EBIT margin = EBIT / revenue

EBITDA margin = EBITDA / 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

	2019	2018
Current ratio	1.0	1.2
Quick ratio	0.8	1.0
Cash ratio	0.7	0.8

Source: Company data.

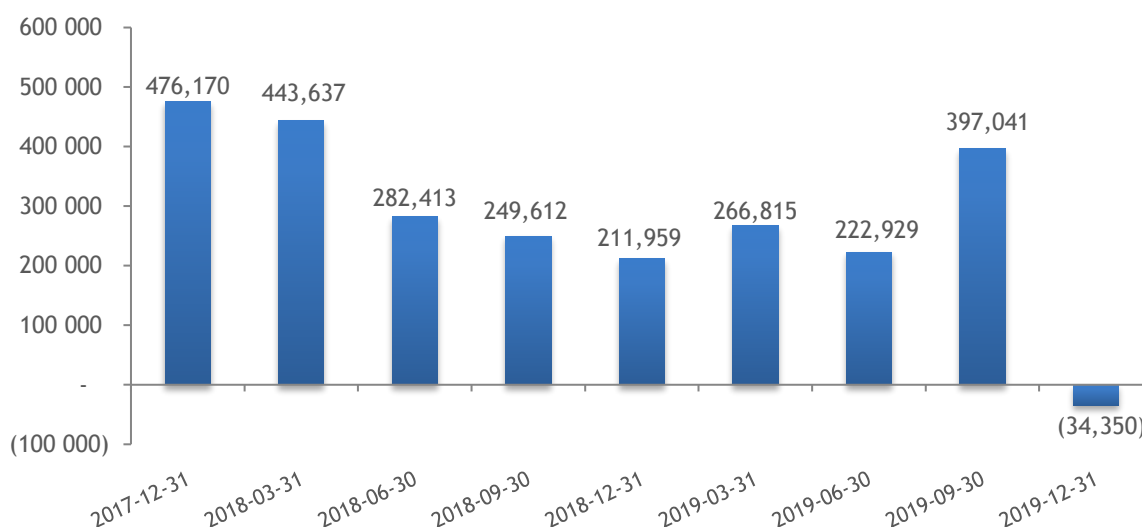
Ratio formulas:

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.

Negative working capital as at December 31st 2019 was due to the purchase of Grupa Azoty POLICE shares issued in a secondary public offering, for a total issue price of PLN 291,225,300, financed with internal cash resources and overdraft facilities. The expenses were partially refinanced with a long-term credit facility in January 2020.

Operational efficiency ratios

	2019	2018
Inventory turnover	57	59
Average collection period	42	47
Average payment period	86	85
Cash conversion cycle	13	21

Source: Company data.

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	2019	2018
Total debt ratio	47.6	44.3
Long-term debt ratio	28.3	28.6
Short-term debt ratio	19.3	15.8
Equity-to-debt ratio	110.0	125.5
Interest cover ratio	256.9	520.3

Source: Company data.

Ratio formulas:

Total debt ratio = total liabilities / total assets

Long-term debt ratio = non-current liabilities / total assets

Short-term debt ratio = current liabilities / total assets

Equity-to-debt ratio = equity / current and non-current liabilities

Interest cover ratio = (profit before tax + interest expense) / interest expense

5.4. Financial liquidity

The Parent and the key Grupa Azoty Group companies are fully solvent, with good credit standing. This means that the Grupa Azoty Group is able to pay its liabilities in a timely manner and to hold and generate free operating cash flows to continue servicing its liabilities as they become due.

The liquidity management policy operated by the Group consists in maintaining surplus cash and available credit facilities as well as limits under the intragroup financing agreement (one purpose of which is to effectively distribute funds within the Group), and in ensuring that their level is safe and adequate to the scale of the Group's business.

5.5. Management of capital and assets

In 2019, the Group paid all of its borrowing-related liabilities when due, and there is no threat to its ability to continue servicing its debt.

The Grupa Azoty Group has access to umbrella overdraft limits related to the PLN and EUR physical cash pooling arrangements and under a multi-purpose credit facility, which may be used as directed by the Parent at times of increased demand for funding from any of the Group companies. The Grupa Azoty Group also has access to bilateral overdraft limits and multi-purpose facilities available to the Group companies.

The aggregate amount of the Group's undrawn overdraft and multi-purpose credit facilities as at December 31st 2019 was PLN 894m.

In addition, as at the reporting date, the Group had access to corporate credit facilities of approximately PLN 2,143m.

The Group also had access to special purpose loans totalling PLN 52m.

As at December 31st 2019, under the agreements specified above the Group had access to total credit limits of approximately PLN 3,089m.

The Group's financial standing is sound, and there are no material threats or risks of its deterioration in the future. The Group complies with the uniform covenants of its facility agreements which enable it to significantly increase financial debt when and as needed.

5.6. Bank deposits

In 2019, the Group's short-term funds were primarily held in current accounts in PLN and EUR with PKO BP S.A., linked under physical cash pooling with the individual companies' sublimits in those currencies. 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 (amounts not included the cash pooling arrangement). As at December 31st 2019, the Group held a total of PLN 944,811 thousand in bank accounts and short-term deposits. Cash totalling PLN 985,615 thousand was held by the Group companies in the Parent's consolidated current accounts (in PLN and EUR) with PKO BP S.A., linked to the physical cash pooling instruments in those two currencies. Of that amount, PLN38,297 thousand was a net surplus balance of the Group companies, placed with PKO BP.

As at December 31st 2019, the above cash and short-term deposits maturing in up to three months as at the reporting date were presented in the financial statements of the Grupa Azoty Group under cash and cash equivalents (PLN 770,087 thousand) and under other short-term financial assets (PLN 174,724 thousand).

Interest income earned by the Group on fixed-term deposits and under the cash pooling arrangement totalled PLN 10,467 thousand.

5.7. 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.

5.8. 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 2019, the Grupa Azoty 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 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 cash at banks and 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.

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:
To mitigate 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 sales force.
 - A trade credit limit does not require a separate approval if it is insured or relevant security is provided by a bank or another 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 certain subsidiaries as co-insured) and Grupa Azoty KĘDZIERZYN hold uniform global receivables insurance policies with KUKI, expiring in July 2021. Grupa Azoty PUŁAWY signed a receivables insurance agreement on the same terms with EULER HERMES, expiring in January 2020. Grupa Azoty POLICE has executed a global insurance agreement with ATRADIUS, based on unified terms of insurance and valid until December 2021, with annual settlement periods.

5.9. Expected financial condition

Although their situation is clearly linked to developments in the market environment, the Parent as well as the Group's subsidiaries and associates are fully solvent, with good credit standing. This means that they are able to pay their liabilities in a timely manner and to hold and generate free operating cash flows sufficient to continue servicing their liabilities as they become due. In 2019, all of their borrowing-related liabilities were paid when due, and there is no threat to their ability to continue servicing their debt. To secure liquidity, the Parent uses external sources of financing. It is party to umbrella credit facility agreements which secure funding for day-to-day operations and to a package of New Financing agreements, which include long-term agreements to finance the Strategy and Development Plan. The Parent and the subsidiaries are party to a physical cash pooling agreement in PLN and EUR, whereby some companies' deficits are financed with surpluses from other companies. Thus, even if the macroeconomic conditions deteriorate in a short term, the risk of losing liquidity remains low. Under the Payment Service Agreement with Banco Santander S.A., executed together with the Key Subsidiaries, the Parent has the ability to defer the payment of liabilities. The agreement supports liquidity management.

The principal drivers determining the Parent's development in 2020, including growth of its financial resources and assets, will include prices of the main raw materials and feedstocks and the ability to generate positive margins on the main products sold both in Poland and abroad. Moreover, future financial performance will also be influenced by exchange rates (USD, EUR) and the economic situation in agriculture and in the industries which are final customers.

The Parent 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.

To mitigate the impact of adverse external factors, the Group continues the cooperation with PGNiG with respect to supplies of natural gas (a key feedstock) based on market prices, actively manages its currency risk, interest rate risk and the risk related to increasing prices of CO₂ 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, benzene and phenol, propylene, as well as competitors' and buyers' activity in the Group's sales markets. In view of the sudden decline in demand from China (and other countries as well) caused by the pandemic, oil and gas oversupply is expected, leading to significant price cuts with a positive effect on the Group's costs. In addition, reduction in industrial production and services will drive decline in demand for energy, which may lead to price pressures favourable to the Group. A similar situation is expected in the prices of CO₂ emission allowances. Future financial performance will also be influenced by exchange rates (USD, EUR) and their volatility, and by the economic situation in agriculture, and especially in the industries which are final customers. The duration of trade disruptions caused by the coronavirus and how it affects prices of and demand for fertilizers, plastics, OXO products, melamine and other chemicals will play a crucial part. Considering the current environment, the fertilizer segment should suffer the least despite production cuts of various extent. It is expected that as a result of logistical disruptions and constraints at borders the global fertilizer flow will change and producers will generally direct products to local and close markets. The price level remains uncertain, especially since work at Indian ports, the second largest fertilizer import hub, has been suspended. This means that increased competition among European producers on the European Union market should be expected. The Grupa Azoty Group's advantages in this respect stem from the policy of comprehensive customer service, reliable supplies, and constantly high quality of its products. In addition, the acquisition of COMPO EXPERT is expected to strengthen Grupa Azoty Group's position as a leader in agricultural solutions. It opens new opportunities for the Grupa Azoty Group to diversify its business while acquiring highly innovative technologies, know-how, and a well-developed distribution network.

In addition, the Group's ammonia production capacity and the corporate-level management strategy adopted for this area significantly boost the competitive position of the Grupa Azoty Group (including also COMPO EXPERT from 2019).

In the Plastics segment, thanks to the consistently pursued product, application and geographical diversification strategy in 2019 the Group ensured sales guaranteeing high utilisation of the

available production capacities. The new modified plastics plant placed in service at the end of 2019 further enhanced the security of conducting business. 2020 will be a period of tough challenges posed by the uncertain and rapidly changing developments related to the spread of the pandemic. Shutdown of plants manufacturing products for the automotive industry, temporary production cuts in other industries due to reduced demand for their products (e.g. the household appliance industry), problems with ensuring workforce availability and, finally, production cuts on economic grounds may result in the need to reduce the production of plastics and semi-finished products for plastics production also at the Grupa Azoty Group. At the time of preparation of this report, the extent of cuts and constraints remains unknown, and a temporary rise in demand for European producers' products from the markets previously served by China, combined with lower costs of raw materials, may be insufficient to cancel out the effects of these cuts and constraints.

In the chemical segment, prolonged and widespread cuts in various regions of the world may lead to lower output. Of key importance will be the extent of production cuts caused by the pandemic in the industries applying technical-grade urea and urea solutions, OXO products, and melamine. The condition and organisation of logistics companies, which must operate under extraordinary conditions (restrictions at borders, quarantine, extended logistical operations due to staff shortage at loading and unloading locations), will be vital in maintaining the flow of production and sale. In the case of OXO products, 2019 saw price and consumption declines, which led to lower sales on EU and export markets. Numerous changes are expected in 2020 and the situation is difficult to predict. As at the date of this report, the Grupa Azoty Group did not reduce the production or prices of its OXO products. Following a series of slight increases, prices remain stable on the back of improved demand and lower supply of the products on the European market. As at the date of this report, demand is and will depend on the global condition of the industries purchasing OXO products, and logistics problems are not affecting production or sales.

As regards melamine, 2019 is viewed as one of the most difficult years since the 2009 crisis. The slump was caused not only by a decline in global demand, but also by the US-China trade war. Nonetheless, thanks to its long-term relations and the combined sale of melamine and urea, the Group has maintained melamine sales at high levels, meeting its quantitative targets despite a decline in demand for the product and a large oversupply of low-priced melamine. As in the case of OXO products, both negative and positive scenarios are considered for 2020. In negative scenarios, there are uncertainties related to the extent of production cuts on the melamine application market, price levels, and logistics constraints. Positive scenarios envisage reduced supply and sale from China and growing demand for European products.

6. Risk, threats and growth prospects

6.1. Significant risk factors and threats

Risk related to health risks for employees and disruptions in the Group's operations due to SARS-CoV-2 coronavirus epidemic

Group - medium risk / Grupa Azoty S.A. - medium risk

Risk related to health and safety of employees, potential disruptions in production and supply chain, and adverse financial consequences resulting from the public health emergency caused by the SARS-CoV-2 epidemic.

The Group is constantly monitoring the epidemic situation in Poland and analysing various scenarios relating to the current and projected consequences of the public health emergency affecting the Company's and the Grupa Azoty Group's operations. The analyses and forecasts consider the introduced legislative changes and changes in behaviour in the market environment.

In order to enable the Company and other Grupa Azoty Group companies to operate in a possibly smooth manner, procedures have been put in place to ensure prompt reaction of appropriate services. In addition, guidelines have been issued with a view to reducing the risk of infection for employees. A team has also been set up in the Grupa Azoty Group to coordinate activities undertaken in connection with the public health emergency.

As at today, the Grupa Azoty Group is not seeing any significant decline in sales or any disruptions in the supply chain of raw materials, feedstocks, materials and services, or any increase in staff on sick leave with an adverse effect on continuity of production. At the same time, given the high speed of the changes, there can be no assurance that the risk under analysis will not be assessed as higher, especially if the epidemic risk escalates.

Risks associated with the execution of investment projects

Grupa Azoty Group - medium risk / Parent - medium risk

Risk that key investment projects will not be completed according to plan and/or will not deliver the expected results. Risk that a given investment project may not be executed at all, may be delayed and/or may be over budget.

Implementation of strategic investment projects is among the Group's major areas of activity, critical to its value growth. The Group's strategy envisages both investment projects in the core business areas of the Group and expansion of its new business segments.

Investment decisions are made on a case-by-case basis in the context of compliance with the Group's strategy, the project's expected economic viability, and the level of risk associated with achieving the expected results. In consequence, considering the nature of the Group's investment projects, including the time required for their preparation and implementation and the effect of new regulations on their profitability, there is a risk that some of the investment projects included in the Group's investment programme will be modified, their completion will be delayed or that they will not be carried out at all.

Each investment project is implemented in line with internal procedures and is fully supervised by the Investment Corporate Supervision Department. Monthly reporting by Project Managers and quarterly corporate reporting have been put in place at the Parent. The reports contain analysis identifying potential increases in the risk of exceeding the deadline and/or overrunning the budget of a specific project.

Risk associated with price and availability of key raw materials

Grupa Azoty Group - medium risk / Parent - medium risk

Risk that production may be stopped or significantly constrained due to disruptions in supplying a key raw material or a significant increase in its price.

Continuity of the Group's production depends on availability and quality of key raw materials. No assurance can be given that terms of business with some suppliers will not deteriorate or that the supply of raw materials used in production will not be interrupted. In particular, a limited number of potential suppliers and monopolisation on some of the markets for the commodities used by the Group may be a source of risk. The continuity of supply of raw materials to the Group may be disrupted by factors such as technical failures, natural disasters, adverse market conditions resulting from the lack or short supply of certain raw materials, significant adverse weather conditions or events of force majeure. Furthermore, no assurance can be given that contracts for the supply of raw materials will not contain clauses unfavourable to the Group companies, which would fail to properly or effectively protect the Group companies' interests in the event that a supplier does not perform or improperly performs its obligations under such contracts.

The key raw materials and feedstocks for fertilizer production at the Parent include ammonia, phenol, sulfur, natural gas and coal. The raw materials and feedstocks used by Group companies also include benzene, propylene, phosphate rock and potassium chloride.

Ammonia - In 2019, the ammonia market was relatively stable, with the demand and supply balance maintained and ammonia prices largely unchanged. Favourable conditions on the gas market helped to temporarily reduce the cost of ammonia production. To mitigate the risk, supplies from other Grupa Azoty Group production plants were increased and a decision was made to secure additional means of transport (which, in the case of ammonia, means greater market flexibility with regard to increasing diversification).

Phenol - The situation on the phenol market is closely correlated with the market of benzene (the principal component of pricing formulae) and the acetone market. In 2019, subsidies to benzene prices were record high compared with previous periods due to persistent problems on the acetone market, which had an adverse impact on phenol prices. The situation is expected to improve in 2020, mainly on account of lower demand for main phenol applications and slightly better forecasts for and demand signals from the acetone market. Ensuring stable phenol supplies from a domestic supplier will be of vital importance to the Parent. The risk was reduced through long-term security mechanisms provided for in contracts and additional purchases from other sources.

Sulfur - In 2019, the prices of liquid sulfur showed a mild downward trend, but the decline was not as strong as in the case of prilled sulfur prices. Prices fell mainly as a result of the developments on the global sulfur market and lower demand from main applications, leading to changes in the main price indices. The above situation was indirectly linked to the prices of crude oil and, to a lesser extent, prices of the main currencies. As regards the Parent, the problem of ensuring sufficient sulfur stocks is negligible due to the high potential of its own mine, relatively low transport costs and the proximity of the deposit.

Risk related to price and availability of natural gas

Grupa Azoty Group - medium risk / Parent - medium risk

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 Parent takes steps to satisfy its overall gas demand through a combination of a long-term contract with its strategic supplier, annual or shorter contracts with a number of other suppliers, and transactions on energy exchanges and the OTC market to meet short-term demand of the Companies. To this end, the Parent has concluded a long-term contract with a reliable strategic partner. The contract secures 80-100% of the needs, making it possible to partially diversify supplies. The contract provides for a price formula based on market quotations and allows the Parent to hedge prices based on forward products. The abolishment of tariffs on the Polish gas market and conclusion of a long-term contract with pricing formulas based on the German market (the largest gas market in Europe) limited the risk of having to pay significantly higher prices than the direct EU competitors.

Furthermore, the risk of supply constraints due to disruptions in gas supplies to Poland has been mitigated by Regulation (EU) 2017/1938 of the European Parliament and of the Council concerning measures to safeguard the security of gas supply. Moreover, the gas availability and price risk is mitigated by the supplies of substitute and cheaper gas from local sources. They ensure that in the event of limited supply of grid gas production may be continued at satisfactory levels, and if supplies from local sources are lower than needed, grid gas is purchased on the Polish Power Exchange and supplied as part of within-day interruptible capacity.

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

Grupa Azoty Group - medium risk / Parent - medium risk

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 Parent is classified as an establishment with a high risk of a major industrial accident (upper-tier establishment - UTE). Therefore, the Company has developed and implemented incident prevention programmes and regularly monitors and implements legal safety requirements, including requirements of the SEVESO III Directive. The Parent has reliable safety systems and preventive and prediction measures in place at all organisational and technological levels, including occupational health and safety as well as protection against industrial accidents. The relevance of adopted safety measures is assessed by internal and external inspection authorities as well as by accreditation/certification bodies.

The strategy for managing the risk of major industrial accidents or technical failures focuses in the first place on measures to prevent critical situations, and if any such event occurs, the risk is shared with the insurer.

Measures to prevent emergency situations at the Grupa Azoty Group companies include ongoing monitoring of hazards related to technological processes and operation of machinery and equipment, ongoing assessment of their technical condition, and monitoring of threats in storage and transport. Plants and units are fitted with safety and protection systems to minimise the risk of major accidents and environmental contamination, as well as the risk to life and health of people. The Group's units are Best Available Techniques (BAT) compliant. The units are kept in a proper working order also by carrying out scheduled technical stoppages and maintenance shutdowns, periodic inspections and routine rounds as required in the technological and job instruction manuals. The relevant execution resources are provided.

If a failure or accident occur, they are thoroughly analysed in order to identify their causes. Based on such analysis, preventive measures are taken to minimise the risk of such incidents taking place again.

Risk of higher fertilizer imports

Grupa Azoty Group - high risk / Parent - high risk

Risk of failure to achieve target revenue from sales of fertilizers due to higher fertilizer imports. Risk related to periodic increases in volumes of fertilizers imported into Poland from other EU countries and from third countries as well as to a decline in economic performance as a result of squeezed product margins caused by the emergence of new market players and significant volumes of imported fertilizers. Consequently, there is a risk of failure to achieve targeted revenue from sales of fertilizers.

Recent years saw a significant increase in imports of NP and NPK fertilizers as well as UREA, AN, UAN and CAN fertilizers both to the EU and Poland. Competitors from eastern markets have access to cheap raw materials, such as natural gas, potassium chloride and phosphate rock, which are the key cost components in fertilizer production. Fertilizer production costs in the European Union are driven by a number of regulations, including limits on CO₂ emissions, which are not applied in Eastern European or Asian markets.

The Group's efforts focus on mitigating the risks and on strengthening and consolidating its position in the segment of fertilizer production and sale. The Group monitors the volume of fertilizer imports by adapting its sale/pricing policies to market developments, for instance by adjusting price paths to current trends on the European and key global markets and taking steps to optimise the production costs and expand the portfolio of products and services offered to customers.

Risk of tightening regulations restricting the use or application of products

Grupa Azoty Group - medium risk / Parent - medium risk

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 respond to upcoming changes in legislation.

In each case, the impact of new regulations on operations and marketed products is reviewed. 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 its products by customers in the EU countries may be restricted.

At present, the Parent is analysing the risk of reduced sales of nitrogen fertilizers owing to tighter emission limits for greenhouse gases, ammonia and nitrates from nitrogen fertilizers; the risk of more stringent EU regulations on the content of heavy metals (cadmium, nickel and lead) in fertilizer products; the risk of reduced sales of selected plastic materials due to stricter requirements on plastic recycling; and the risk of potential restrictions on the sale of the iron-chromium catalyst, resulting from a potential future ban on using chromium compounds.

Risk of rising prices of carbon emission allowances

Grupa Azoty Group - medium risk / Parent - medium risk

Potential threats related to this risk include higher market prices of CO₂ emission allowances or inability to purchase sufficient volumes of CO₂ emission allowances.

To supervise this risk, the Parent has established an EU ETS Management Committee and an EU ETS Executive Team. In order to mitigate the risk of a negative impact of CO₂ emissions trading prices on its results, the Company monitors the emission allowances market on an ongoing basis and purchases emission allowances on the SPOT market when prices are favourable.

In addition, a part of future emission allowances are secured by using futures contracts - emission allowances are purchased in the form of derivative financial instruments that give rise to an obligation to deliver allowances in future periods when they should be redeemed, which is done in accordance with the purchase strategy in force.

The policies and procedures in place are designed to ensure smooth trading in CO₂ emission allowances, ensure its efficiency, optimise the cost of operation of the EU Emissions Trading Scheme, and minimise the risks associated with participation in the scheme.

Currently, Grupa Azoty S.A. analyses and mitigates the risks arising from legal changes concerning the fourth EU ETS trading period.

Currency risk

Grupa Azoty Group - medium risk / Parent - medium risk

Risk of excessive finance costs, failure to achieve planned performance levels or targets as a result of unfavourable changes in exchange rates.

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 Companies hedge their currency exposures using natural hedging and currency forwards. Since 2014, the Group has applied the Financial (Currency and Interest Rate) Risk Management Policy. In 2015, a centralised financing model was put in place, supporting a long-term hedge horizon by contracting a portion of long-term financing in the form of a euro-denominated credit facility. As of 2017, the Group also reduces its euro-denominated currency exposure by increasing natural hedging.

The Group has in place a Risk Committee which analyses and determines the consolidated currency exposure of the Group and its material subsidiaries, and recommends target levels and horizons of hedges, types of hedging instruments, and exchange rates for hedge transactions. Hedging transactions are executed by those Group companies in which currency exposure occurs. The methods applied by the Group enable it to limit risk by using selected currency risk 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 inflows and currency expenditures, and based on the results of 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. 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.

Interest rate risk

Grupa Azoty Group - low risk/ Parent - low risk

The Parent's net exposure to the interest rate risk is partly limited as the Parent has credit facilities bearing variable interest at 1M WIBOR plus the banks' margins. At the same time, the Parent grants the Group companies loans bearing interest at the same variable rate and a slightly higher margin. The Group also uses surplus cash in PLN and EUR to balance the debt owed by the Group companies in PLN and EUR under Overdraft Agreements connected with physical cash pooling agreements (from 2016 in PLN and from 2018 in EUR). This limits the Group's net exposure to interest rate risk. In addition, by 2017 the Company had utilised the long-term fixed-rate loan facility from the EIB, which was disbursed for 10 years in tranches up to an agreed aggregate amount in the euro. The Group also has access to transaction limits with banks, which enable it to enter into fixed-rate hedging transactions if the risk of a significant increase in financing costs due to higher variable market interest rates grows.

Furthermore, the Group has implemented a Financial (Currency and Interest Rate) Risk Management Policy. The Group has a Risk Committee which analyses and determines Grupa Azoty S.A.'s and its material subsidiaries' consolidated exposure to interest rate risk.

When market interest rates are low, risk indicators are calculated and risk assessment is performed based on a scenario analysis with regard to the Parent's and the subsidiaries' actual exposure to that risk. If the risk exposure and/or market interest rates significantly increase, the Risk Committee considers calculating the value exposed to interest rate risk in accordance with the VaR methodology. Interest rate risk hedges should be executed by the Parent as the entity which centrally manages the Group's finances. Under the loan agreement with the EIB, the Group is obliged to keep its consolidated EBITDA to net interest expense ratio at no less than 6x.

In 2019, interest rates in PLN were further reduced, while interest rates in EUR were negative. Despite growing inflation, no significant interest rate increases are expected at the moment.

Liquidity risk

Grupa Azoty Group - low risk/ Parent - low risk

Liquidity risk is the risk of unexpected cash shortage or unavailability of credit facilities, resulting in temporary loss of ability to meet financial liabilities or the need to raise financing on unfavourable terms.

The Group is exposed to financial liquidity risk consisting in the Group's inability to repay its financial liabilities when they fall due. Risk of failure to raise new financing or refinance the existing financing can increase liquidity risk.

The Parent has established the Grupa Azoty Financing and Liquidity Risk Management Policy. Under the central financing model, the Group has implemented a package of financing agreements and amended its umbrella overdraft and multi-purpose credit facility agreements which secure current liquidity of the Group companies. The Parent is the agent under the umbrella agreements, authorised to allocate sub-limits of credit facilities to individual Group companies. In 2015, the Parent and its key subsidiaries entered into an Intra-Group Financing Agreement under which it set financing limits for those subsidiaries. On October 1st 2016, the Group launched a physical cash pooling service in PLN and, on November 2nd 2018, in EUR, enabling the Group companies to take advantage of the Group's overall liquidity position, including for short-term financing of deficits at some of the companies with surpluses at others.

As a result, the Group has access to credit facilities/surplus cash as well as mechanisms for their free redistribution, which significantly reduces the probability of short-term liquidity loss by the Group or its individual companies. The mechanism also significantly reduces the Group's finance costs.

The above instruments effectively satisfy the Group's current liquidity needs and provide financing for its investment programme. However, if there is an accumulation of both external and internal negative factors, the liquidity risk mitigation methods applied by the Group may prove insufficient, which may have a material adverse effect on the Group's operations, financial condition and

results. The key issue in this respect is to ensure compliance with the covenants provided for in the credit facility agreements, in particular the ratio of the Group's net debt to consolidated EBITDA. The ratio is monitored on a semi-annual basis. The Group monitors projections concerning changes in this ratio by preparing long-term budgets, taking into account both base-case and conservative scenarios. At present, none of the covenants under the credit facility agreements are expected to be breached in this respect. However, in the event of accumulation of adverse macro- and microeconomic factors, such risk may materialise. Therefore, operating and financial performance must be monitored on an ongoing basis, and operating expenses and capital expenditure at individual Group companies must be managed effectively.

Risk related to the security of IT systems

Grupa Azoty Group - medium risk / Parent - medium risk

In their operations, the Group companies use IT systems whose operation can be disrupted by errors in software or ICT infrastructure failures. In addition, some of the systems may be subject of cyber attacks, in particular those taking advantage of defects or security gaps in ICT systems, not yet identified by their manufacturers or providers of ICT security solutions.

Despite the implementation of ICT security systems and procedures as well as constant efforts to minimise the risk of failure and breaking the security barriers in place, the technical and organisational solutions applied may prove ineffective, and failures or ICT security breach incidents may pose a threat to the systems' uninterrupted operation and to the confidentiality and integrity of the data processed in these systems, which in turn may have a material adverse effect on the Group's business, financial position or growth prospects.

The Parent has in place a number of solutions governing information security management: Information Security Policy, ICT system security policy, Instructions for secure use of email, and internal orders concerning the protection of business secrets and handling of information security incidents. The Group has established a Data Protection Committee, as well as a security testing team and an ICT security procedure team. The Group's Security Operations Center monitors the security of ICT systems and handles ICT security incidents.

6.2. Significant external and internal growth factors

The World Bank predicts that in view of the projected gradual recovery in trade and investment, the global GDP in 2020 and 2021 will grow, respectively, by 2.5% and 2.6%, a slight increase from around 2.4% in 2019. In 2020 and 2021, developed economies are expected to grow at a rate of, respectively, 1.4 % and 1.5 %, relative to about 1.6% in 2019.

Significant factors impacting the global economic climate include geopolitical tensions and conflicts in international trade.

The World Bank expected Poland's GDP growth in 2019 at 4.3%. In 2020 and 2021, the GDP growth is projected to decelerate to some extent, to 3.6% and 3.3%, respectively.

Interest rates in Poland

Domestic interest rates remained stable throughout 2019 and, in line with the Governor of the National Bank of Poland's announcements, should remain unchanged until the end of 2019. This means that the main reference rate applicable to the Grupa Azoty Group's credit facilities (1M WIBOR) should remain at about 1.7%. This will help stabilise the Group's borrowing costs at a relatively low level and reinforce its debt service capacity, also if the Group plans to increase debt to finance its investing activities.

Given eurozone's slow GDP growth and the limited rise in inflation, the European Central Bank will continue its quantitative easing programme and the policy of negative interest rates.

Also the FED decided to put an end to the series of interest rate increases in 2018 and in July 2019 cut the interest rates for the first time in a decade (by 0.25%) on the back of concerns over economic downturn in the US during the trade dispute with China.

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

Relative to market rates, the 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.

Regulatory area

- The Ministry of the Environment continued to work on implementing into Polish legislation Directive (EU) 2016/2284 of the European Parliament and of the Council of 14 December 2016 on the reduction of national emissions of certain atmospheric pollutants, amending Directive 2003/35/EC and repealing Directive 2001/81/EC (“NEC Directive”). In April 2019, the ‘National air emission reduction programme’ was adopted by resolution of the Council of Ministers, and in August the Polish Code of Good Agricultural Practice for Reducing Ammonia Emissions was published as part of the obligation under the NEC Directive.
- On June 12th 2019, the Directive of the European Parliament and of the Council of 5 June 2019 on the reduction of the impact of certain plastic products on the environment was published. The new Directive sets the targets for individual European Union countries primarily with regard to the plastic packaging and disposable products industry. The directive proposes to reduce specific types of single-use plastic products, taking into account consumers’ needs and behaviour as well as business opportunities. The Directive must be implemented by individual countries.
- June 29th 2019 saw the entry into force of the Act of June 13th 2019 amending the Act Amending the Act on Excise Duty and Certain Other Acts, the Energy Efficiency Act, and the Act on Liquid Biocomponents and Biofuels. The key objective of the amendment is to guarantee that households, micro and small enterprises, hospitals, public sector entities, including local governments and state-owned unincorporated organisations will pay the same price for electricity in 2019 as they did in June 2018. Medium-sized and large enterprises could purchase electricity on the market and apply for reimbursement of their costs in accordance with the rules of de minimis aid, paid out from the Price Difference Reimbursement Fund. Submission of applications from those enterprises became possible after the end of the third quarter of 2019.
- July 15th 2019 saw the entry into force of the New Fertilizers Regulation (Regulation (EU) 2019/1009 of the European Parliament and of the Council of 5 June 2019 laying down rules on the making available on the market of EU fertilizing products and amending Regulations (EC) No 1069/2009 and (EC) No 1107/2009 and repealing Regulation (EC) No 2003/2003. The Regulation will become fully binding in July 2022 after a three-year *vacatio legis* period during which the European Commission will issue a number of delegated acts supplementing the provisions of the Regulation. In Poland, work is under way to align national laws, e.g. the Polish Fertilizers and Fertilization Act, with the Regulation.
- On July 29th 2019, the Act Amending the Waste Act and Certain Other Acts was published in the Official Journal of the Republic of Poland and entered into force on August 18th 2019. The Act further clarifies the provisions relating to the operation of a database on products and packaging and on waste management (BDO) as an electronic system.
- On August 14th 2019, the Act on Compensation for Indirect Emission Costs was published in the Journal of Laws and entered into force on August 29th 2019. The Act concerns allocating a portion of funds obtained by Member States in connection with the sale of CO2 emission allowances as compensation for the energy-intensive industry.
- On August 22nd 2019, the Act amending the Act on Maintenance of Cleanliness and Order in Municipalities and Certain Other Acts was published in the Journal of Laws and entered into force on September 6th 2019. The Act introduced a number of amendments to the Waste Act, including the introduction of the category of non-combustible waste, the possibility of issuing optional decrees concerning the loss of the waste status, or further clarification regarding the maintenance of video surveillance systems.
- November 2019 saw the end of national public consultations concerning Poland’s Energy Policy until 2040 (PEP2040), held as part of the strategic environmental impact assessment. PEP2040 is a response to the key challenges faced by Poland’s energy sector in the coming decades, setting development directions for the sector taking into account tasks to be completed in the short term. PEP2040 will be implemented through eight directions of activities in the fuel and energy sector, divided into execution tasks.
- On November 8th 2019, Commission Delegated Regulation (EU) 2019/1868 of 28 August 2019 amending Regulation (EU) No 1031/2010 to align the auctioning of allowances with the EU ETS rules for the period 2021 to 2030 and with the classification of allowances as financial instruments pursuant to Directive 2014/65/EU of the European Parliament and of the Council was published in the Official Journal of the European Union. The legislation governing the auctions of emission allowances needed to be changed to take account of new rules for phase 4 of the EU ETS (2021-2030) agreed as part of the 2018 revision of the ETS Directive. The changes concern in particular the use of a common auction platform to monetise the allowances dedicated to the Innovation and Modernisation Fund. Technical changes were also necessary to

take account of the fact that as of the beginning of 2018 emission allowances are classified as financial instruments under the European financial legislation. In addition, while the auction process is widely seen as working well and the overall architecture of the auction process remains unchanged, some of the rules were improved and simplified.

- On November 28th 2019, the European Commission published an ambitious plan for industries' transition towards climate neutrality by 2050, prepared by the High-Level Group on Energy-intensive Industries - 'Masterplan for a Competitive Transformation of EU Energy-intensive Industries Enabling a Climate-neutral, Circular Economy by 2050'. The proposals are intended to provide a framework for supporting transition towards a climate-neutral industry. The Masterplan's key objectives are: creation of markets for climate-neutral, circular economy products, developing climate-neutral solutions and financing their uptake, resources and deployment. The Masterplan includes activities that can provide the right signals to the markets to attract new investments and help businesses to implement cost-effective climate-neutral solutions. It also focuses on the need to ensure a just transition and highlights the importance of providing employees with skills that will be useful in the future as well helping communities which are dependent on those industries in managing this transition.
- On December 6th 2019, consultations began on the draft (D1) of the reference document for best available techniques (BREF) for common waste gas treatment in the chemical sector (WGC). The consultations are scheduled for completion on February 28th 2020.
- On December 11th 2019, the European Commission published a communication setting out a European Green Deal for the European Union and its citizens. It resets the Commission's commitment to tackling climate and environmental-related challenges that is this generation's defining task. It is a new growth strategy that aims to transform the EU into a fair and prosperous society, with a modern, resource-efficient and competitive economy where there are no net emissions of greenhouse gases in 2050 and where economic growth is decoupled from resource (the European Commission systematised the existing visions and supplemented them with new goals). The document stresses that the implementation of the European Green Deal and the achievement of its goals must be conducted in a fair and inclusive way.
- On December 12th 2019, the Ministry of State Assets made the draft Act Amending the Energy Law available as part of public consultations. The aim of the proposed amendments is to transpose Directive (EU) 2019/692 of the European Parliament and of the Council of 17 April 2019 amending Directive 2009/73/EC concerning common rules for the internal market in natural gas. The Directive requires Member States to ensure that the rules applicable to gas transmission lines connecting two or more Member States are also applicable to gas transmission lines to and from third countries. i.e. non-EU Member States or member states of the European Free Trade Agreement (EFTA) – signatories of the Agreement on the European Economic Area.
- Work is in progress on implementing phase 4 of the ETS. The existing mechanisms, i.e. the solidarity mechanism and the derogation under Article 10c, have been revised. The ETS expert group prepared a document dated November 7th 2019 for discussion by the Commission concerning the update of the EU ETS phase 4 emission indicators - the general guidance and historical heat and fuel emissions. The discussion document refers to the general guidance for Phase 4 benchmarks: Introduction: The 'reference criteria/benchmarks to be applied for phase 4 (2021-2030)' are based on the levels developed for phase 3 (2013-2020). Only updates of benchmark values are required.

Considering the situation that has arisen not only in the EU but globally as a result of the coronavirus, risks arising from the inability to ensure legal compliance are being monitored and requests are being filed with appropriate institutions to temporarily suspend certain requirements, e.g. those relating to transport and logistics (suspension of time measurement/ extension of truck drivers' working hours), safety (extension of validity of occupational health checks or OHS training), and various certificates (extension of equipment verification validity by Regional Measurement Offices, extension of validity of technical equipment inspections).

Trade policy

- On August 28th 2019, pursuant to a decision of the Ukrainian Interdepartmental Commission on International Trade proceedings were initiated concerning fertilizer imports to Ukraine irrespective of the country of their origin. The Commission decided to commence two proceedings - one concerning nitrogen fertilizers, and the other - compound fertilizers. As a result of those actions, equal duties may be introduced for all importers or quotas on individual countries exporting goods to Ukraine.

- On September 23rd 2019, the European Commission announced the launch of an expiry review of the anti-dumping measures applicable to imports of ammonium nitrate originating in Russia following the submission of relevant applications by EU fertilizer manufacturers. Within 15 months after the review, the European Commission will decide whether to lift or keep the duties for another five years. The applicable anti-dumping duty on imports of ammonium nitrate from Russia was announced on November 16th 2018 following a review carried out at the request of EU agricultural producers' associations.
- On October 9th 2019, the Implementing Regulation of October 8th 2019 imposing an anti-dumping duty on imports of mixtures of urea and ammonium nitrate originating in Russia, Trinidad and Tobago and the United States of America was published in the Official Journal of the EU. The duty was imposed for five years and the anti-dumping duties range between EUR 22.24/tonne and EUR 42.47/tonne, depending on the country and manufacturer.
- China continues to apply anti-dumping duties on imports of caprolactam originating in the European Union and the United States (imposed in October 2017 for a period of five years) and polyamide 6 from the European Union, the United States, Russia and Taiwan (the most recent decision to uphold the anti-dumping duties for another five years was made in April 2016). The duty on caprolactam imports applies to Grupa Azoty PUŁAWY and Grupa Azoty S.A., for which the rates were set at 4.4% and 4.9% (not more than 25.5%), respectively. With regard to polyamide 6, the rate for Grupa Azoty S.A. was set at 9.7% (not more than 23.9%).
- The anti-dumping measures on imports of melamine originating in China, imposed for a period until July 2nd 2022, continue to apply. The fixed duty of EUR 415/tonne was introduced, with the exception of the three Chinese exporting producers that benefit from the minimum import price of EUR 1,153/tonne.
- The United Kingdom left the European Union on January 31st 2020, in accordance with the Brexit deal. The transitional period will last until the end of 2020, and the UK will still be party to existing EU trade deals with other countries. Future trade relations between the European Union and the United Kingdom are most likely to be governed by a free trade agreement.
- The free trade agreement between the EU and Japan took effect on February 1st 2019 - the negotiation guidelines were adopted in 2012 and the agreement was ratified in late 2018.
- On June 28th 2019, negotiations were closed on a trade agreement forming part of an association agreement, with Argentina, Brazil, Paraguay and Uruguay (Mercosur) - negotiation guidelines were adopted in 1999.
- On June 30th 2019, the European Union and Vietnam signed a free trade agreement - the negotiation guidelines were adopted in 2007.
- Negotiations of European Union's trade agreements with the following third countries are in progress: Mexico (the provisions of the agreements are now undergoing a legal review), Chile (the provisions of the agreements are being drafted in bilateral negotiations), Australia and New Zealand (the provisions of the agreements are being drafted in bilateral negotiations) and the United States.

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 2019 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 stock 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. The Parent's shares (ticker: ATT) are listed on the WSE main market in the continuous trading system and are included in the following domestic indices:

- WIG – comprising all stocks traded on the WSE Main Market which satisfy the basic eligibility criteria. Grupa Azoty S.A.'s share in the WIG index: 0.59%.
- WIG30 - based on the value of the 30 largest and most liquid stocks traded on the WSE Main Market;
- mWIG40 - comprising 40 medium-sized companies listed on the WSE Main Market;
- WIG-Chemia - a sector index comprising those companies included in the WIG index which are also classified in the Chemicals sector;
- WIG-Poland - an index comprising exclusively shares of Polish companies listed on the Main Market of the WSE and meeting the basic eligibility criteria.

The Parent is also included in the following foreign indices:

- MSCI indices - in the semi-annual revision of the MSCI indices of November 13th 2018, Grupa Azoty was transferred from the MSCI GLOBAL STANDARD INDEXES - MSCI POLAND INDEX to MSCI GLOBAL SMALL CAP INDEXES - MSCI POLAND INDEX;
- FTSE indices - following FTSE Russell's reclassification of the Polish market from developing markets to developed ones, since September 24th 2018 Grupa Azoty has been included in the FTSE DEVELOPED MARKETS index;
- Since June 15th 2018, Parent shares have been traded on the Berlin Open Market (Boerse Berlin).

Since September 4th 2019, the Parent has been included in CEEplus, a new index of stock exchanges from the Three Seas Initiative countries. The new index includes more than 100 of the most liquid companies listed on stock exchanges in Central and Eastern Europe: in Bratislava, Bucharest, Budapest, Ljubljana, Prague, Warsaw and Zagreb.

The Parent is included in CSR indices:

- RESPECT Index - from November 19th 2009 until the expiry of the index at the end of 2019
 - WIG-ESG - as of September 3rd 2019; the index comprises companies listed in the WIG20 and mWIG40 indices, i.e. the blue chips of the WSE.The WSE has been promoting the highest ESG (Environment, Social, Governance) standards among listed companies for many years. Previously, the WSE published the RESPECT Index, which achieved its educational objectives over the 10 years of its existence. Until the end of 2019, the WSE published simultaneously both WIG-ESG and RESPECT indices, and since January 1st 2020 only the WIG-ESG index has been published.
- FTSE4Good Emerging - an index launched in December 2016, including companies reporting environmental events, corporate governance and social responsibility issues.

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.

The actual shareholding structure may differ from that presented if there were no events giving rise to a shareholder's obligation to disclose a new shareholding or if, despite the occurrence of such events, a shareholder failed to provide relevant information.

Shareholding structure as at December 31st 2019

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. (indirectly: 19,657,350 shares or 19.82%)	406,998	0.41	406,998	0.41
Rainbee Holdings Limited ^{**)}	9,820,352	9.90	9,820,352	9.90
Opansa Enterprises Limited ^{**)}	9,430,000	9.51	9,430,000	9.51
TFI PZU S.A.	8,530,189	8.60	8,530,189	8.60
Other	28,390,113	28.62	28,390,113	28.62
Total	99,195,484	100.00	99,195,484	100.00

^{*)} current name: Nationale-Nederlanden Otwarty Fundusz Emerytalny

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

In the period from December 31st 2019 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.

No dividend was paid in 2019. On June 27th 2019, the Company's Annual General Meeting passed a resolution to allocate the entire net profit for the financial year 2018, of PLN 171,064,449.85 thousand, to the Company's reserve funds.

Dividend paid out in 2008–2018

Year for which dividend was paid	Dividend record date	Dividend payment date	Profit earned	Total dividend	Dividend per share
2008	Jun 26 2009	Instalment 1: Aug 31 2009	PLN 61,935 thousand	PLN 39,898,749.42	PLN 1.02
		Instalment 2: Nov 6 2009			
2012	Apr 22 2013	May 24 2013	PLN 250,692 thousand	PLN 148,793,226.00	PLN 1.50
2013	Jun 18 2014	Jul 9 2014	PLN 44,117 thousand	PLN 198,839,096.80	PLN 0.20
2015	Jun 20 2016	Jul 11 2016	PLN 209,055 thousand	PLN 83,324,206.56	PLN 0.84
2016	Aug 4 2017	Aug 23 2017	PLN 224,775 thousand	PLN 78,364,432.36	PLN 0.79
2017	Jul 25 2018	Aug 8 2018	PLN 354,793 thousand	PLN 123,994,355.00	PLN 1.25

Source: Company data.

Performance of Grupa Azoty shares

At the end of 2018, the Company stock traded at PLN 31.18 and rose to PLN 35 at the beginning of 2019.

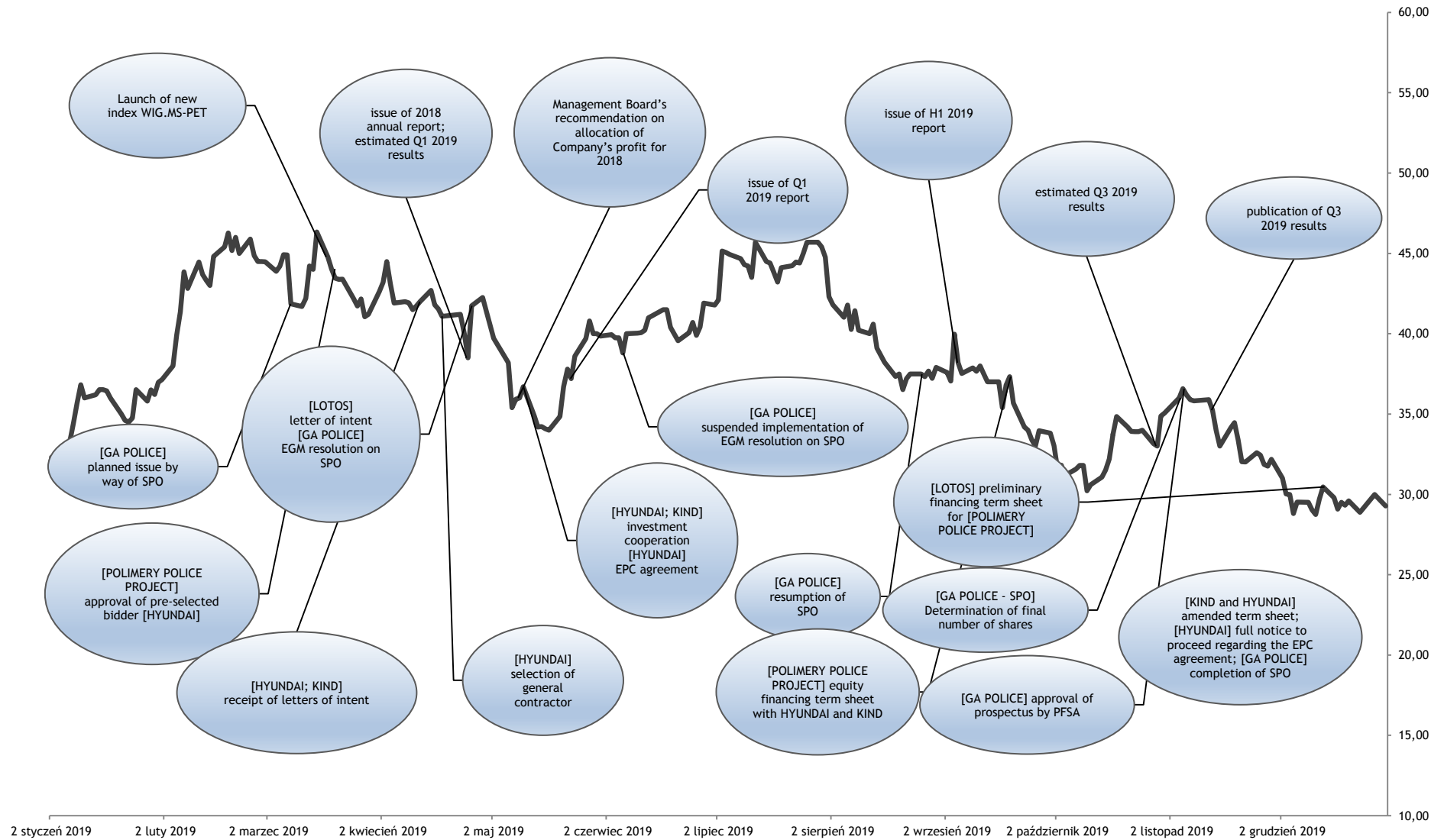
In 2019, the prices of Company shares were not as volatile as in 2018. The price per share was hardly ever above PLN 40. In January, the share price slowly increased from about PLN 32 to just over PLN 36 at the end of the month. In late February, the price went up to PLN 46 per share, reaching the year's record high in the last weeks of February 2019 (local maximum of PLN 46.94). The price was relatively stable in March and April to drop in May and June, when it oscillated slightly above PLN 40, and usually below that figure. In July, the share price temporarily exceeded PLN 46 to decline to PLN 37-38 in August. As of September, the price continued on a downward trend, reaching close to PLN 30, followed by a slight rebound to PLN 32-PLN 33 in October. It should be noted that Q3 2019 was the worst period for the Polish equity market in the year, and virtually all WSE indices ended the quarter in the red. In early November, there was a slight temporary recovery, pushing the price above PLN 36. After that, the price started to gradually sink to below PLN 30 at the beginning of December, reaching the local minimum of PLN 28.20. Until the end of 2019, the share price revolved around PLN 30, trading at PLN 29.28 at the close of the year. By and large, 2019 was marked by low prices and low trading volumes of Grupa Azoty shares.

Performance of Parent shares

Metric	Unit of measurement	2019
Number of shares	shares	99,195,484
Capitalisation at year end	PLNm	2,904
Average trading volume per session	shares	87,127
Trading value	PLNm	840,691
Lowest closing price	PLN	28.74
Highest closing price	PLN	46.34

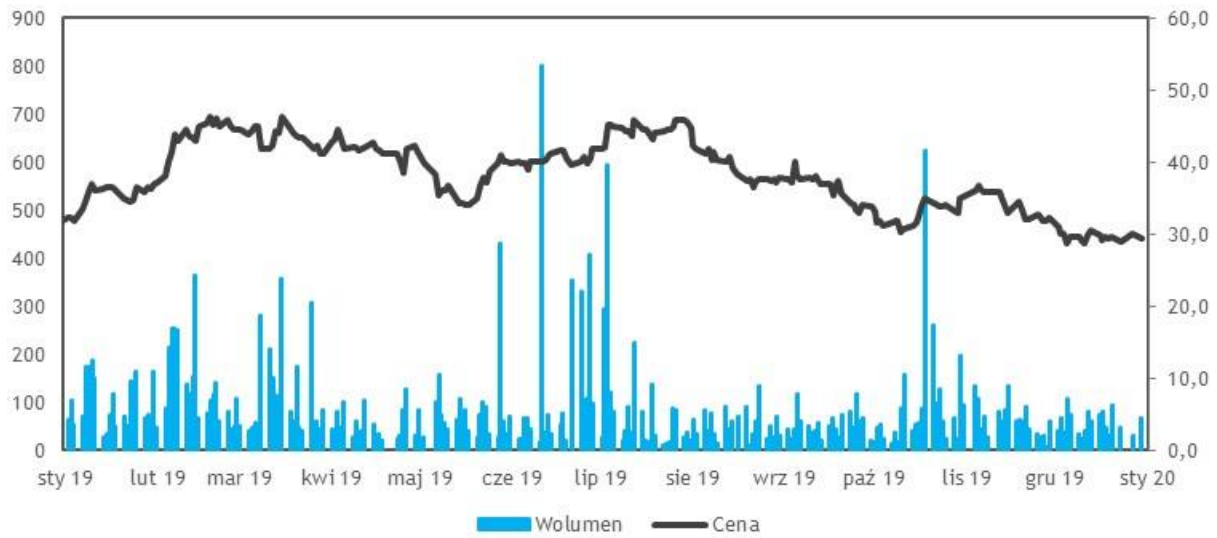
Source: In-house analysis based on the WSE Statistics Bulletin.

Performance of Parent shares in 2019

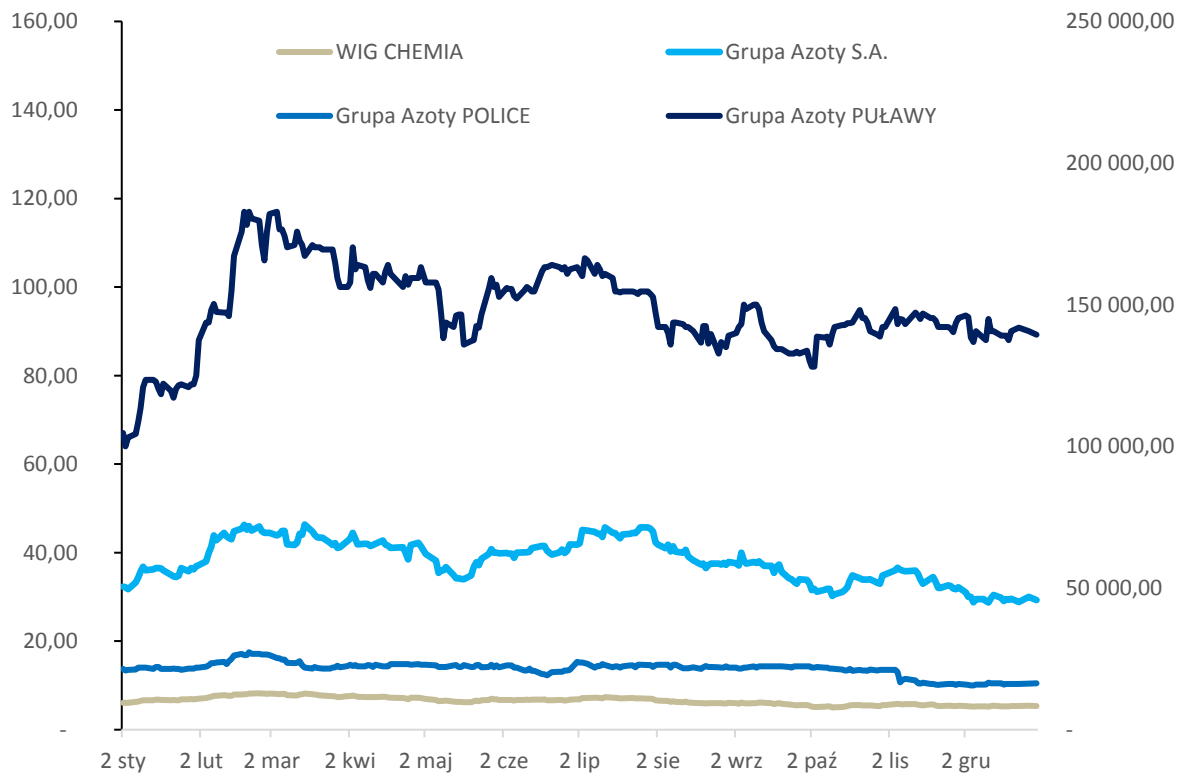


Source: In-house analysis based on the WSE data.

Performance of Parent shares in 2019



Performance of Grupa Azoty Group issuers' shares against the Chemicals index in 2019



Recommendations

In 2019, ten brokerage houses covering the Parent issued 26 price target recommendations for its stock.

Recommendations for Parent shares, published in 2019

Date	Recommendation	Price target (PLN)	Price at recommendation on date (PLN)	Broker
Dec 9 2019	Buy	47.00	29.50	DM BOŚ
Dec 5 2019	Hold	32.75	28.80	DM mBank
Dec 5 2019	Sell	26.60	28.80	IPOPEMA Securities
Dec 2 2019	Buy	37.40	31.02	SANTANDER BM
Dec 2 2019	Hold	31.40	31.02	TRIGON DM
Nov 6 2019	Hold	37.12	36.18	DM mBank
Oct 18 2019	Hold	35.80	34.84	TRIGON DM
Oct 18 2019	Hold	36.00	34.84	Raiffeisen
Oct 7 2019	Hold	34.09	31.58	DM mBank
Oct 3 2019	Buy	54.20	31.82	DM BOŚ
Sep 5 2019	Hold	39.77	38.20	DM mBank
Aug 2 2019	Hold	45.93	41.80	DM mBank
Jul 16 2019	Buy	54.20	44.40	DM BOŚ
Jul 4 2019	Hold	47.50	45.06	TRIGON DM
Jul 3 2019	Accumulate	45.93	45.14	DM mBank
Jun 17 2019	Accumulate	45.10	52.95	DM BDM
Jun 3 2019	Accumulate	44.42	39.94	DM BDM
May 16 2019	Buy	42.80	34.08	Pekao IB
May 9 2019	Buy	45.39	36.00	DM mBank
Apr 18 2019	Hold	43.20	41.08	TRIGON DM
Mar 5 2019	Hold	43.20	44.20	DM mBank
Feb 28 2019	Hold	46.40	44.50	DM BDM
Feb 14 2019	Buy	51.50	43.32	DM BOŚ
Feb 7 2019	Buy	47.00	43.86	ERSTE Securities
Feb 7 2019	Buy	48.00	43.86	TRIGON DM
Jan 7 2019	Buy	46.40	33.28	PKO BP

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.

The Company provides investors and analysts with the opportunity to ask questions during conferences and teleconferences, one-on-one meetings and chats. Investors have been provided with direct contact details to the Investor Relations Office on the website to enable contact in the event they have any additional questions.

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. All conference recordings together with presentations are published on the Parent's website and social networking sites, along with a recording of the earnings commentary. Earnings conferences are highly popular, attracting several dozen representatives of the capital market, and online transmissions have numerous followers. In 2019, four conferences with investors and capital market analysts and four press conferences were organised.

The Grupa Azoty Group 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. At the meetings, the Grupa Azoty Group representatives present to investors the strategic objectives and the investment programme being implemented, and discuss the market climate, financial condition and prospects for the Group's operations.

In 2019, the Grupa Azoty Group representatives participated in conferences organised by brokerage houses in Poland and abroad. Roadshow presentations and numerous meetings and teleconferences with institutional investors and capital market analysts were also organised by the Group.

Investors and analysts may take part in site visits, organised on a regular basis by the Group, at which they can visit production sites and meet with key managers responsible for the 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. The chats organised by the Grupa Azoty Group in 2019 was observed by several hundred investors.

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. In 2019, Grupa Azoty was the partner of the conference together with Grupa Azoty Police, presenting the Group's operations and the Polimery Police Project to retail investors.

In response to the shareholders' expectations, the Parent makes every effort to ensure that the published information is disseminated among as many recipients as possible.

A key tool for communicating with the capital market is the Parent's corporate website <http://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.

The Grupa Azoty Group makes every effort to ensure that the materials presented on its website, in particular in the Investor Relations section, are up to date and of high quality. Current information about the Group is also published in social media, such as Twitter, Youtube, and Facebook.

In order to keep its stakeholders informed, the Parent prepares a monthly summary of the most important events at the Grupa Azoty Group in the form of an IR Newsletter, distributed to a wide group of recipients.

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 2019:

- Two companies of the Grupa Azoty Group, Grupa Azoty S.A. and Grupa Azoty POLICE, earned for the second consecutive time the prestigious title of 'Transparent Company 2018' in the third edition of a ranking run by the *Parkiet* daily and the Institute of Accountancy and Taxes, with the support of the Warsaw Stock Exchange.

The aim of the ranking is to promote the most transparent and best communicating companies included in the three main WSE indices: WIG20, WIG40 and WIG80. Grupa Azoty S.A. was awarded in the mWIG40 category and Grupa Azoty Police - in sWIG80.

The 'Transparent Company 2018' ranking was based on a survey covering the most important areas of market communication: financial reporting, investor relations and corporate governance.

- Grupa Azoty S.A. was distinguished for: "maintaining the highest standard of regular communication with retail investors" during the periodic Wall Street conference organised by the Polish Association of Retail Investors in Karpacz.

The Parent had also been a constituent of the RESPECT INDEX from the inception of the index in 2009 to its close on December 31st 2019. Inclusion in the RESPECT Index depended, 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. In parallel with the RESPECT INDEX, as of September 3rd 2019 the Warsaw Stock Exchange (WSE) started to publish a new index, WIG-ESG. It consists of companies listed in the WIG20 and mWIG40 indices, i.e. the blue chips of the WSE. WIG-ESG reflects the value of a shares in socially responsible companies, i.e. those that adhere to the principles of corporate social responsibility, in particular with respect to environmental, social, economic and corporate governance matters. Also Grupa Azoty S.A. joined the new index.

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 2019 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:

https://www.gpw.pl/pub/GPW/files/PDF/GPW_1015_17_DOBRE_PRAKTYKI_v2.pdf

to the extent described on the Parent's website:

https://tarnow.grupaazoty.com/inwestor/lad-korporacyjny/zasady-dobrych-praktyk_

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.

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 8.15 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. The Company gives due advance notice of any changes to the dates of publication of its periodic reports.

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 2019, 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 2019, the Supervisory Board held 13 meetings and 20 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 2019, the Company convened the Annual General Meeting for June 27th 2019.

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 8.14 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 8.14 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,
- Piotr Czajkowski - Member,
- 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 8.14 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 Parent 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.

The Parent and the main subsidiaries of the Grupa Azoty Group have implemented the Enterprise Risk Management System based on the ISO 31000:2018 "Risk management principles and guidelines" standard and on good practices recommended in other recognised Enterprise Risk Management (ERM) standards.

The Parent has established the "Enterprise Risk Management Policy for the Grupa Azoty Group" and implemented procedural solutions describing the stages of the risk management process and detailed procedures for identification and assessment of enterprise risk at the Grupa Azoty Group companies.

In accordance with the rules applicable at the Group, enterprise risk management at the Group companies consists of the following stages:

- risk identification taking into account opportunities and threats,
- assessment of risks and control mechanisms in place,
- establishing mitigation plans for specific risks,
- monitoring and reporting of enterprise risk levels.

Enterprise risk management is a process carried out at the operating level - at the Subsidiaries, and at the corporate level - at the Parent's Corporate Risk Management Office. A Risk Management Committee and a Corporate Integration Team for Risk Management Process have been established to support the process of risk management.

The Group Companies conduct ongoing identification of risks, taking into account market analyses and amendments to key regulations. Based on the identified new risks, a periodic qualitative and quantitative analysis is carried out, for which the respective risk owners are responsible. Results of the periodical reviews are recorded in Risk Information Sheets and Risk Register and the collected data is used in periodic reports prepared for the Parent's Management and Supervisory Boards.

Risks are managed by the respective risk owners, who adopt risk management strategies, carry out day-to-day activities to analyse particular risk factors and monitor risk levels. The Parent monitors all key risks and areas of its exposure to market threats on an ongoing basis. The Group has in place optimisation measures to improve risk management efficiency.

8.4. Management standards and systems

Management standards

The Group operates an Enterprise Management Policy. The Policy, which defines the general plans and directions for the Grupa Azoty Group, was updated in September 2018. The Enterprise Management Policy sets out the mission, vision and strategic objectives of the Group companies. The objectives are implemented based on management systems compliant with the highest international standards.

The Enterprise Management Policy defines the Grupa Azoty Group as:

- stimulant for growth of the Polish chemical and related industries
- base for extending the product chain in Poland's chemical industry
- opportunity to reduce Poland's trade deficit in chemicals
- leader in research, development and innovation for the chemical and related industries in Poland
- platform for cooperation with state-controlled companies

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

- 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 that drive the growth of the chemical industry

The Group companies pursue strategic objectives based on management systems conforming to the international standards. Operating priorities, such as high quality, care for technical safety and the environment, health safety of food, process safety, reducing environmental losses, energy efficiency improvement, 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 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 (currently be adapted to the ISO 45001:2018 standard),
- Food Safety Management System compliant with the ISO 22000:2005 standard,
- PN-EN ISO/IEC 17025:2018 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",
- Energy Management System compliant with the ISO 50001:2011 standard (currently being adapted to the ISO 50001:2018 standard).

In the reporting period, the Group companies maintained and improved their management systems. The operating priorities: high quality and care for technical safety and the environment, are all efficiently monitored and facilitate effective management. 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 Grupa Azoty Group integrates its management systems on an ongoing basis and continuously monitors changes in laws, regulations, and standards. It takes adaptive measures to ensure that its management systems are compliant with amended certification standards, including the ISO 9001:2015 and ISO 14001:2015 standards.

In the reporting period, the Grupa Azoty Group companies adapted their quality and environmental management systems 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

A shareholder is any person, including a parent and a subsidiary of such person, who is directly or indirectly entitled to exercise voting rights at the General Meeting under any legal title; this includes persons who do not hold shares in the Company, in particular usufructuaries, pledgees, as well as persons entitled to participate in the General Meeting despite having disposed of their shareholdings after the record date (Art. 46.5 of the Articles of Association). Detailed rights of the State Treasury (a shareholder) are defined in Art. 46.3 of the Articles of Association. It should be noted that the Articles of Association do not provide for any preference shares.

Shareholding structure as at January 1st 2019 (in accordance with the information provided in the full-year report for 2018)

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. (indirectly: 19,657,350 shares or 19.82%)	406,998	0.41	406,998	0.41
Rainbee Holdings Limited ^{**)}	9,820,352	9.90	9,820,352	9.90
Opansa Enterprises Limited ^{**)}	9,430,000	9.51	9,430,000	9.51
TFI PZU S.A.	8,530,189	8.60	8,530,189	8.60
Other	28,390,113	28.62	28,390,113	28.62
Total	99,195,484	100.00	99,195,484	100.00

^{*)} current name: Nationale-Nederlanden Otwarty Fundusz Emerytalny

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

In the period from January 1st 2019 to the issue date of this report, the Parent was not notified of any changes in major holdings of its shares.

Major shareholders in the Company

- The State Treasury - the Government of the Republic of Poland represented by the Chancellery of the Prime Minister,
- TFI PZU S.A. - Towarzystwo Funduszy Inwestycyjnych PZU S.A. - financial investor; one of Poland's largest investment fund companies, member of the PZU Group,
- ING OFE (currently Nationale-Nederlanden OFE) - Nationale-Nederlanden Otwarty Fundusz Emerytalny, managed by Nationale-Nederlanden Powszechnie Towarzystwo Emerytalne S.A. - financial investor, member of NN Group N.V.,
- Norica Holding S.à r.l. - a subsidiary of Acron and Mr. Viatcheslav Kantor, Norica Holding S.à r.l. and its subsidiaries Opansa Enterprises Limited and Rainbee Holdings Limited hold 19.82% of shares in the Company.

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. 42.1.3 and 42.1.4 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

Amendments to the Articles of Association are made in accordance with the Articles of Association and the Commercial Companies Code.

Pursuant to Art. 50.23 of the Articles of Association, powers of the General Meeting include making amendments to the Articles of Association of Grupa Azoty S.A. Requests to amend the Articles of Association should be presented together with a statement of reasons and a written opinion of the Supervisory Board (Art. 51 of the Articles of Association). Any amendments to the Articles of Association must be approved by resolution by the General Meeting and be entered in the register (Art. 430.1 of the Commercial Companies Code). Such entry is of a constitutive nature. Therefore, any amendments to the Articles of Association must be submitted by the Management Board to the registry court. Such submission must be made within three months from the date on which the General Meeting adopted the resolution introducing the amendment (Art. 430.2 of the Commercial Companies Code). Pursuant to Art. 32.1.16 of the Articles of Association, the Company's Supervisory Board adopts the consolidated text of the Company's Articles of Association, prepared by the Management Board.

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

Members of the Management Board are appointed by the Supervisory Board following a recruitment process held to verify and evaluate qualifications of candidates and to select the best candidate. The rules and procedures for the recruitment process are defined in a General Meeting resolution which sets out the rules of recruitment to select Members of Grupa Azoty S.A. Management Board. Any member of the Management Board may be removed or suspended from duties by the Supervisory Board or the General Meeting. Considering that Grupa Azoty S.A. is a state-owned company, the appointment and removal of Management Board members are governed by the Commercial Companies Code, the Act on State Property Management of December 16th 2016, the Company's Articles of Association and the Rules for recruitment and selection of members of the Management Board of Grupa Azoty S.A., adopted by resolution of the Company's Extraordinary General Meeting.

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

The Management Board manages the Company's affairs and represents the Company in all court and non-judicial activities. Any matters related to managing the Company's affairs, not reserved for the General Meeting or the Supervisory Board pursuant to the law or the Articles of Association, fall within the powers of the Management Board.

Any matters outside the ordinary course of the Company's business shall require a resolution of the Management Board.

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 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. 24 and Art. 32 of the Parent's Articles of Association).

The 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 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 in accordance with the Commercial Companies Code, the Parent's Articles of Association and the Rules of Procedure for the General Meeting. The current Rules of Procedure for the General Meeting of Grupa Azoty S.A. of Tarnów were adopted by resolution of the Extraordinary General Meeting of June 7th 2018.

Pursuant to Art. 42.1 of the Articles of Association, the General Meeting is convened by the Company's Management Board:

- on its own initiative,
- at the request of the Supervisory Board, expressed in a Supervisory Board resolution,
- 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 interest in the Company's share capital, submitted in writing at least one month before the proposed date of the General Meeting.

It should be noted that the General Meeting should be convened within two weeks of the date of the request referred to in Art. 42.1.2-4 (Art. 42.2 of the Articles of Association). If the General Meeting is not convened within the above time limit:

- if a request to convene the meeting has been made by the Supervisory Board - it becomes entitled to convene the General Meeting,

- if a request to convene the meeting has been made by the shareholders specified in Articles 42.1.3 or 42.1.4 above, the Registry Court may authorise the requesting shareholders to convene an Extraordinary General Meeting. The Registry Court designates the Chairperson of the Meeting. The notice convening the Extraordinary General Meeting should refer to the decision of the Registry Court.

Art. 42.4 of the Articles of Association further states that the right to convene an Extraordinary General Meeting is also vested in:

- the Supervisory Board, whenever it deems it advisable, by way of a resolution;
- a shareholder or shareholders representing at least half of the share capital. Such shareholder or shareholders designate the Chairperson of the Meeting.

A General Meeting of a public company (such as Grupa Azoty S.A.) is convened by posting a notice on the company's website and in the manner prescribed for publication of current reports, in accordance with the provisions of the Act on Public Offering, Conditions Governing the Introduction of Financial Instruments to Organised Trading and Public Companies. The notice should be published at least twenty-six days before the date of the General Meeting (Art. 44.1 of the Articles of Association; Art. 402.1 of the Commercial Companies Code). Art. 402.2 of the Commercial Companies Code stipulates formal requirements to be met by the notice, while Art. 402.3 of the Code specifies the data to be published on the company's website.

Pursuant to Art. 43 of the Articles of Association, General Meetings are held at the Company's registered office (in Tarnów) or in Warsaw. The Annual General Meeting should be held within six months from the end of each financial year (Art. 49 of the Articles of Association). As a rule, technical and organisational support of each general meeting is provided by the Company's Management Board (Section 4.1 of the Rules of Procedure for the General Meeting). The Management Board may, however, engage third parties to perform the obligation specified above, including professional organisers of general meetings (section 4.2 of the Rules of Procedure).

The General Meeting may be attended by: 1) persons who are the Company's shareholders sixteen days prior to the date of the General Meeting, 2) proxies or statutory representatives of the shareholders referred to in the preceding item, 3) members of the Management Board and Supervisory Board, and the Annual General Meeting also by persons who were members of the Company's governing bodies in the last financial year, 4) experts and persons invited by the body or entity convening the General Meeting, 5) third parties responsible for the provision of support of the General Meeting, and support staff designated by the Company's Management Board, 6) a person designated by the Management Board (Art. 5.1 of the Articles of Association).

The proceedings at the General Meetings are in principle governed by the Rules of Procedure for the General Meeting.

The General Meeting is opened by the Chairperson or Deputy Chairperson of the Supervisory Board and if these persons are absent - by the President of the Management Board or a person appointed by the Management Board. Then, subject to Art. 42.3.2 and Art 42.4.2 of the Articles of Association, the Chairperson of the General Meeting is elected from among those entitled to participate in the Meeting. The General Meeting has the capacity to adopt resolutions irrespective of the number of shares represented at the Meeting, unless the Commercial Companies Code or the Articles of Association provide otherwise (cf. Art. 46.1 of the Articles of Association).

As a rule, one share confers the right to one vote at the General Meeting (Art. 46.2 of the Articles of Association).

A General Meeting may only adopt resolutions concerning matters included in its agenda, subject to Article 404 of the Commercial Companies Code (Art. 44.2 of the Articles of Association). The agenda of a General Meeting is prepared by the Management Board or another entity convening the Meeting. By way of a resolution, the General Meeting may change the order of items on the agenda (Art. 44.3 of the Articles of Association). A shareholder or shareholders representing at least one twentieth of the Company's share capital may request that certain issues 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 interest in the share capital (Art. 44.4 of the Articles of Association). The procedure and formal conditions for submitting the requests referred to above are set out in Art. 44.5-7 of the 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 also 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 (Art. 44.8 of the Articles of Association).

Key powers of the General Meeting

The powers of the General Meeting are stipulated in Art. 50 of the Articles of Association, and in particular include:

- 1) examination and approval of the financial statements for the previous financial year and the directors' report on the company's operations,
- 2) granting discharge to members of the Company's governing bodies in respect of performance of their duties,
- 3) distribution of profit or coverage of loss,
- 4) setting the dividend record date and the dividend payment date, as well as a decision on payment of dividend in instalments,
- 5) 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,
- 6) appointment and removal of Supervisory Board members appointed by the General Meeting, including the Chairperson of the Supervisory Board, subject to the provisions of Art. 16.2,
- 7) determination of the rules and amounts of remuneration for Supervisory Board members,
- 8) granting consent to disposal or lease of the Company's business or its organised part, and establishment of limited property rights in the Company's business or its organised part,
- 9) granting consent to disposal of real property, right of perpetual usufruct to real property or interest in real property, as well as other non-current assets, in particular intangible assets, property, plant and equipment or long-term investments, including their contribution to a company or cooperative if the market value of such assets exceeds 5% of total assets,
- 10) granting consent to granting another entity the right to use assets referred to in item 9 above for a period longer than 180 days in a calendar year under a legal transaction if the market value of the subject matter of the transaction exceeds 5% of total assets, with the proviso that if the right to use is granted under:
 - a) a lease, rental or other agreement for granting another entity the right to use an asset against consideration – the market value of the asset in such legal transaction shall be understood as the value of consideration for:
 - one year - if the right to use the asset is granted under an agreement concluded for an indefinite term,
 - the entire term of the agreement – if the right to use the asset is granted under an agreement concluded for a fixed term,
 - b) lending agreements or other agreements for granting other entities the right to use an asset free of charge – the market value of the asset in such legal transaction shall be understood as the amount of consideration which would have been payable if a lease or rental agreement had been concluded, for:
 - one year - if the right to use the asset is granted under an agreement concluded for an indefinite term,
 - the entire term of the agreement – if the right to use the asset is granted under an agreement concluded for a fixed term,
- 11) granting consent to purchase of real property, right of perpetual usufruct to real property or interest in real property, as well as other non-current assets, with a value exceeding:
 - a) PLN 100m; or
 - b) 5% of total assets;
- 12) purchase of or subscription for shares in another company where the value of such shares exceeds:
 - a) PLN 100m; or
 - b) 5% of total assets;
- 13) disposal of shares in another company with a market value exceeding:
 - a) PLN 100m; or
 - b) 5% of total assets;
- 14) 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,
- 15) increase or reduction of the Company's share capital,
- 16) issue of convertible bonds, bonds with pre-emptive rights and subscription warrants,
- 17) purchase of the Company's own shares in the situation specified in Art. 362.1.2 of the Commercial Companies Code,
- 18) squeeze-out carried out in compliance with Art. 418 of the Commercial Companies Code,
- 19) creation, use and release of capital reserves,

- 20) use of statutory reserve funds,
- 21) decisions with respect to claims for redress of damage inflicted in the course of establishing the Company, its management or supervision,
- 22) merger, transformation or demerger of the Company,
- 23) amendments to the Articles of Association and change of the Company's business profile,
- 24) dissolution and liquidation of the Company,
- 25) review of the Supervisory Board's reports referred to in Art. 32.1.8 and 32.1.20-22,
- 26) determination of rules for disposal of non-current assets whose market value exceeds 0.1% of the Company's total assets, unless the market value of such assets does not exceed PLN 20 thousand,
- 27) determination of detailed recruitment rules and selection procedure for members of the Company's Management Board,
- 28) determination of the rules of remuneration for members of the Company's Management Board.

Motions and requests concerning the matters specified in Article 50 should be submitted together with a statement of reasons and a written opinion of the Supervisory Board. Opinions of the Supervisory Board are not required for motions or requests concerning members of the Supervisory Board, in particular regarding the matters referred to in Art. 50.2, 50.6 and 50.7 of the Articles of Association.

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

Management Board

The Management Board is the Company's executive and managing body conducting all of the Company's affairs not reserved by law or by the Articles of Association for the General Meeting or the Supervisory Board, and representing the Company in relations with third parties.

As at January 1st 2019, the Management Board was composed of:

- Wojciech Wardacki - President of the Management Board,
- Witold Szczypiński - Vice President of the Management Board,
- Mariusz Grab - Vice President of the Management Board,
- Grzegorz Kądziałowski - Vice President of the Management Board,
- Paweł Łapiński - Vice President of the Management Board,
- Artur Kopec - Member of the Management Board.

On June 12th 2019, the Supervisory Board appointed Tomasz Hryniewicz as Member of the Management Board. The Supervisory Board appointed Tomasz Hryniewicz as Vice President of the Company's Management Board, with effect from July 5th 2019.

Composition of the Management Board as at December 31st 2019 and as at the date of this report:

- Wojciech Wardacki - President of the Management Board,
- Witold Szczypiński - Vice President of the Management Board,
- Mariusz Grab - Vice President of the Management Board,
- Tomasz Hryniewicz - Vice President of the Management Board,
- Grzegorz Kądziałowski - Vice President of the Management Board,
- Paweł Łapiński - Vice President of the Management Board,
- Artur Kopec - 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 at 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 at the School of Public Administration in Szczecin
1996 - Apr 30 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 4 2005 - Oct 2 2005	Member of the management board for restructuring at Zakłady Chemiczne Zachem S.A.
Oct 3 2005 - Aug 1 2006	President of the management board and Chief Executive Officer of Zakłady Chemiczne Zachem S.A.
Aug 2 2006 - Oct 31 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 1 2016 - Mar 30 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
Since March 2017:	Member of the Chemistry Committee of the Polish Academy of Sciences

Witold Szczypiński - Vice President of the Management Board, Director General

Appointed Vice President of the Company's Management Board on March 11th 2008. Director General of Grupa Azoty S.A. as of March 2014.

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. (currently 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 University Council at the Tadeusz Kościuszko University of Technology of Kraków (since 2019)
- Member of the Programme Board of the *Przemysł Chemiczny* monthly (since 2019)
- Member of the Scientific Board of the Ignacy Mościcki Industrial Chemistry Research Institute (2017-2019),
- 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.

Mariusz Grab - Vice President of the Management Board

Appointed Vice President of the Company's Management Board on May 17th 2018.

Education:

2006 - 2015	PhD programme at the Faculty of Computer Science of the West Pomeranian University of Technology
2003 - 2004	Postgraduate programme in pedagogy at the Szczecin University of Technology
1994 - 1999	MSc programme at the Faculty of Computer Science of the Szczecin University of Technology
1992 - 1994	School of Computer Science in Jelenia Góra

Professional experience:

May 23 2016	President of the management board of Grupa Azoty Police Serwis Sp. z o.o.
Apr 1 2016 - May 22 2016	Independent commercial proxy at Żegluga Szczecińska sp. z o.o.
May 8 2012 - May 22 2016	Deputy CEO at Żegluga Szczecińska sp. z o.o.
Jul 9 2010 - Nov 30 2011	Member of the management board and CFO of Polskie Radio - Regionalna Rozgłośnia w Szczecinie S.A. (regional branch of the Polish state radio broadcaster)
Apr 21 2010 - Jul 8 2010	President of the management board of Polskie Radio - Regionalna Rozgłośnia w Szczecinie S.A.
Mar 30 2007 - Apr 20 2010	Vice President of the management board of Polskie Radio - Regionalna Rozgłośnia w Szczecinie S.A.
Jul 7 2006 - Mar 29 2007	Member of the management board of Polskie Radio - Regionalna Rozgłośnia w Szczecinie S.A.
2001 - 2006	Owner of Art Media (sole trading activity)
1999 - 2008	Assistant at the Systems Research Unit, Artificial Intelligence and Mathematical Methods Institute, of the Faculty of Computer Science of the Szczecin University of Technology.

Other experience:

- 2004-2017 - Member of the Programming Board of the Szczecin Branch of Telewizja Polska.
- From 2003 - Member of the Community Council of the Szczecin Provincial Emergency Medical Service Station, responsible for evaluating the budget, financial statements as well as financial and investment plans of the Station, which reported to the Marshal's Office of the Province of Szczecin.
- 2001-2002 - Participation as a research team member in the PHARE PL 9704-01-13 (Component C) project 'Concept of agricultural information system for the needs of the CAP' - development of a system for sharing agricultural information between Poland and EU countries - co-creator of the system design presented to the Ministry of Agriculture.
- Author of more than ten scientific papers on modern financial instruments, information management in the European Union, modern valuation and risk mitigation technologies in economic markets, presented at conferences in Poland and abroad. Author of studies on mass property appraisal for the purposes of introducing cadastral tax in Poland.
-

Tomasz Hryniewicz - Vice President of the Management Board

Appointed as member of the Company's Management Board on June 12th 2019. On July 5th 2019, by resolution of the Supervisory Board, Mr Hryniewicz was appointed Vice President of the Management Board.

Education and training:

2017 - 2019	WSB University in Wrocław; Master of Business Administration
1995 - 2000	Opole University of Technology; engineering degree in computer-controlled electronic systems
1991 - 1995	Vocational Secondary School in Opole; installation of electronic devices
2019	The Employers' Organization of Polish Copper and Wrocław University of Economics, Lubin; Finance for non-finance professionals
2018	Dale Carnegie Training; High Impact Presentation
2018	FranklinCovey Licensed Workshops - Leadership: Great Leaders, Great Teams, Great Results
2018	European Advisory Group; course for candidates to supervisory boards of state-owned companies
2018	The Employers' Organization of Polish Copper and Wrocław University of Economics, Lubin; Finance for non-finance professionals
2017	Langas Group; Training course: The Commercial Companies Code and the Civil Code in corporate practice

Professional experience:

since 2019	Vice President of the Management Board of Grupa Azoty S.A.
2017 - 2019	MERCUS LOGISTYKA Sp. z o.o. (KGHM Group), Polkowice - President of the Management Board
2016	PGNIG SERWIS Sp. z o.o., Lublin - President of the Management Board
Since 2016	JUDO MIZUKA Sp. z o.o., Opole - President of the Management Board (volunteer)
2014 - 2018	ESTATE Sp. z o.o., Opole - President of the Management Board
2011 - 2016	CHAMELEON S.A., Opole - President of the Management Board
2008 - 2011	CHAMELEON Sp. z o.o., Kępa - Vice President of the Management Board
2006 - Jan 2020	Tomasz Hryniewicz, Opole - Owner (investment advisory services, corporate restructurings, rental of own real estate)
2006 - 2012	ESTATE Sp. z o.o., Opole - President of the Management Board
2000 - 2004	COMAR Sp. z o.o., Opole - Vice President of the Management Board
1998 - 1999	COMAR Marcin Symowanek, Opole - Marketing and Sales Manager

Organisational/management skills:

- Building and growing a business - a successful manager with over 20 years of experience as President and Vice President of the Management Board and Commercial Proxy at commercial-law companies, as evidenced by excellent performance and numerous awards received in recognition of accomplishments in the private and state-owned business sectors (Gazela Biznesu and Forbes Diamonds 2015 for Chameleon, a privately-owned company). The winner of Forbes Diamonds 2019 in the category of companies with over 250m in revenue that have delivered the fastest value growth in recent years (Mercus Logistics of the KGHM Polska Miedź S.A. Group). Strong sense of responsibility for words, acting in conformity with established principles and ethics.
- Performance-oriented, determination and consistency in implementing budget discipline, repeated success in delivering performance and profitability targets for businesses under management, deep understanding of the legal aspects of running a business.
- Optimisation, restructuring and modernisation of structures - successful restructurings and business upgrades, formation of organisations and their structures, creativity in searching for new ways to reach customers, building quality standards from scratch, expanding market share.
- Excellent communication skills, with experience in communication with trade unions and co-workers, gained during work in managerial positions at state-owned and other companies.
- Experience in forging international relationships gained as a long-serving manager of a leading importer in its industry.

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
- 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:

- 2019 University of Dąbrowa Górnicza - Assistant Professor, Department of Management, Faculty of Applied Sciences
- 2018 Member of the supervisory board of H. Cegielski Poznań S.A.
- 2017 Vice President of the Management Board of Grupa Azoty S.A., responsible for R&D&I
- 2017 Expert of ECVET (European Credit System for Vocational Education and Training) at the Foundation for the Development of the Education System
- 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.
- 2015 - 2017 Head of Office of the Deputy Prime Minister, Minister of Science and Higher Education
- 2015 - 2016 Workshop programme coordinator at the Faculty of Administration and Social Sciences, Warsaw University of Technology
- 2015 - 2017 Member of the Programme Board at Polskie Radio w Warszawie RDC S.A.
- 2014 - 2015 Head of Office of a Parliamentary Group at Sejm, the lower chamber of the Polish parliament
- 2013 - 2018 Lecturer at Łazarski University, Faculty of Law and Administration, Department of Administrative Law
- 2011 - 2014 Lecturer at the State Higher Vocational School in Tarnów, Institute of Administration and Economics
- 2007 - 2014 Head of an MP's office

Training and courses:

Numerous completed training courses, including in the protection of classified information; PRINCE2® Foundation (Projects In Controlled Environments) project management course, with an examination successfully passed and a certificate issued; Effective management of the R&D department. Practical solutions and new technologies; Innovation management; R&D project implementation and management; Intellectual property law; Organisation of conferences and business visits.

Other experience:

- Member of the College of Advisers of the Łukasiewicz Research Network, an opinion-forming and advisory panel of Europe's third largest research network comprising 38 scientific and research institutes.
- Member of the Scientific Board of the New Chemical Syntheses Institute of Puławy - National Research Institute - the Łukasiewicz Research Network.
- Member of Stowarzyszenie Inżynierów i Techników Przemysłu Chemicznego (Polish Association of Chemical Engineers).
- Member of the Tarnów Scientific Society.
- Member of the Scientific Council of the scientific journal *Tarnowskie Dialogi Naukowe* (Tarnów Scientific Dialogues).
- Member of the Editorial Team of the *Cement Wapno Beton* international scientific journal, Focusing on mineral binding materials and concrete. The bi-monthly publishes primarily scientific and research papers on chemistry and technology of binding construction materials and concrete. The journal is listed in the Thomson Reuters databases: Citation Science Index Expanded (also known as SciSearch®), Neuroscience Citation Index®, Journal Citation

Reports/Science Edition, and in the prestigious Master Journal List of the Institute for Scientific Information.

- Member of the Jagiellonian University Business Board, appointed by the Rector of the Jagiellonian University of Kraków. The Board has been appointed to strengthen the integration of the Jagiellonian University with its social and economic environment, and to support effective cooperation of science and education with business.
- Member of the Board of Patrons of the Tarnów Higher School and the Board of Experts of the University of Dąbrowa Górnicza and the originator of the Institute for Research on Artificial Intelligence of the University of Dąbrowa Górnicza.
- Author and co-author of several dozen scientific articles on innovation management.
- Co-author of the book *Buduję swoją pierwszą drukarkę 3D* ('Building my first 3D printer').

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.
- Completed a post-graduate course in Business English organised by the SWPS University.

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. |
| 2016 | Vice President of Fertilizers Europe |

Artur Kopeć - Member of the Management Board

Member of the Company's Management Board since February 2012, elected by employees of Grupa Azoty S.A.

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.

Professional experience:

- 2003 – employment with the State Higher Vocational School in Tarnów,
- As of 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 construction of the 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:

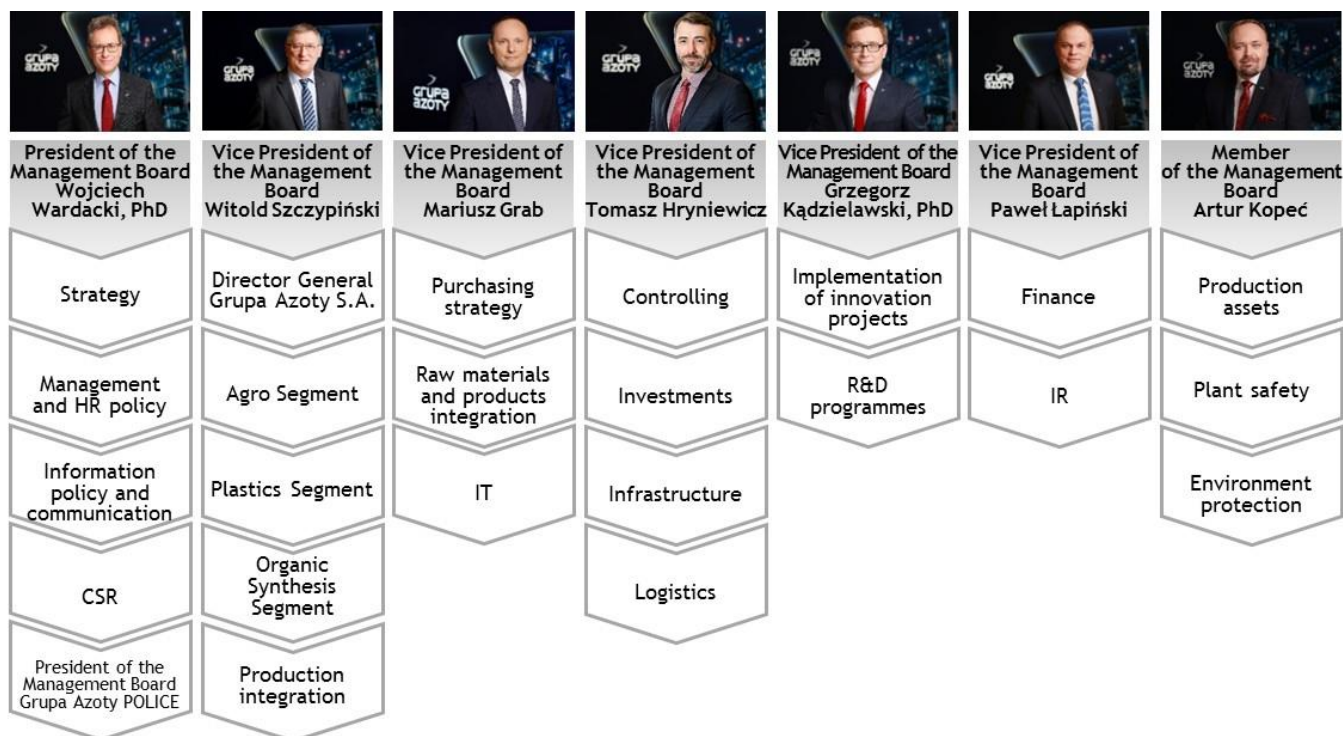
- since 2006, he has been a member of the Polish Association of Chemical Engineers.
- in 2013–2014 - deputy chairman of the supervisory board of ŻSSA Unia Tarnów.
- Major professional accomplishments included successful launch of production of Saletrosan, a new fertilizer. Co-authored the “Process of 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 19th 2019, 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, the Plastics Segment, and the Organic Synthesis Segment,
- Mariusz Grab - Vice President of the Management Board, responsible for formulation and implementation of the procurement strategy, raw material and product integration, IT supervision, cyber security management,
- Tomasz Hryniewicz - Vice President of the Management Board, responsible for controlling, logistics and storage management, supervision of property management, infrastructure, and supervision of investment projects,
- Grzegorz Kądziaławski - Vice President of the Management Board, responsible for implementation of R&D programmes, supervision of R&D units, coordination of the technological innovation area,
- Paweł Łapiński - Vice President of the Management Board, responsible for finances, investor relations, financial risk and credit risk management, and for credit policy management,
- Artur Kopeć - Member of the Management Board, responsible for production assets, plant safety, environmental protection, critical infrastructure, and social dialogue.

Division of responsibilities between the Management Board members as at December 31st 2019



Source: Company data.

The Supervisory Board

As at January 1st 2019, the Supervisory Board was composed of:

- Tomasz Karusewicz - Chairman of the Supervisory Board,
- Michał Gabryel - Deputy Chairman of the Supervisory Board,
- Zbigniew Paprocki - Secretary of the Supervisory Board,
- Piotr Czajkowski - Member of the Supervisory Board,
- Monika Fill - Member of the Supervisory Board,
- Robert Kapka - Member of the Supervisory Board,
- Bartłomiej Litwińczuk - Member of the Supervisory Board,
- Ireneusz Purgacz - Member of the Supervisory Board,
- Roman Romaniszyn - Member of the Supervisory Board.

On February 26th 2019, Tomasz Karusewicz resigned as Chairman and Member of the Supervisory Board. No reasons for the resignation were given. On the same day, by way of a resolution of the Parent's Extraordinary General Meeting, Ireneusz Purgacz was removed from the Supervisory Board. At the same time, by way of resolutions of the Parent's Extraordinary General Meeting, the following persons were appointed to the Supervisory Board:

- Paweł Bielski,
- Marcin Pawlicki.

By way of the Annual General Meeting's resolution of June 27th 2019, Marcin Pawlicki was appointed Chair of the Supervisory Board.

Composition of the Parent's Supervisory Board as at December 31st 2019 and as at the date of this report:

- Marcin Pawlicki - Chairman of the Supervisory Board,
- Michał Gabryel - Deputy Chairman of the Supervisory Board,
- Zbigniew Paprocki - Secretary of the Supervisory Board,
- Paweł Bielski - Member of the Supervisory Board,
- Piotr Czajkowski - Member of the Supervisory Board,
- Monika Fill - Member of the Supervisory Board,
- Robert Kapka - Member of the Supervisory Board,
- Bartłomiej Litwińczuk - Member of the Supervisory Board,
- Roman Romaniszyn - Member of the Supervisory Board.

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.

Marcin Pawlicki - Chairman of the Supervisory Board

Mr Pawlicki graduated from the Polish Open University of Warsaw and completed the Master of Business Administration programme at Oxford Brookes University. In 1998-2010, he held managerial positions at Gryfnet Sp. z o.o., System Sp. z o.o., Cancelaria Sp. z o.o. In 2010-2016, he served on the Programming Board of Polskie Radio Szczecin, a local branch of Poland's national public-service radio, and later worked as a sales network coordinator and manager at Orange and TP SA (GTP) in Szczecin, Vattenfall Sales Poland Sp. z o.o. and Tauron Polska Energia S.A. In 2013-2016, he ran his own business (marketing, sales and services). In 2015-2016, he was Project and Implementation Manager at Tramwaje Szczecińskie Sp. z o.o., and in 2016-2018 - Deputy Mayor of the City of Szczecin and secretary of the supervisory board of Inwestycje Miejskie Stadion Sp. z o.o. He has a long-standing relationship with the Szczecin Provincial Voluntary Labour Corps, serving as Deputy Chairperson of its Advisory Board.

Currently, Mr Pawlicki holds the position of an adviser to the Management Board of Enea Operator Sp. z o.o. and also serves as a Councillor of the City of Szczecin. He has completed various courses and training programmes, including for Data Security Controller and Personal Data Controller, as well as on protection of classified information.

Michał Gabryel - Deputy Chairman of the Supervisory Board

Mr Garbryel graduated from the University of Wrocław (master's degree in theoretical physics). He completed a number of courses in management and oversight of local government units, and, in 1998, a 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 a manager at Zakład Usług Wysokościowych Tatarnik, and in 1988-1993 he managed various companies and a cooperative in the IT sector.

In 1991, he assumed the position of President of the Management Board of WAZA Spółka z o.o., where he helped develop proprietary software dedicated to governmental authorities, including in the healthcare sector.

In 1998-2002, he chaired the Audit Committee of the City of Wrocław.

In 1998-1999, he served on the Supervisory Board of WZG S.A. and in 2016-2017 - on the Supervisory Board of PAIH S.A., successively as its Member, Deputy Chairperson, and Chairperson.

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 candidates to supervisory boards of state-owned companies. He has worked for Grupa Azoty S.A. (formerly Zakłady Azotowe w Tarnowie-Mościcach S.A.) for 25 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 Technical Safety Department. Since 2010, he has chaired the Association of Chemical Industry Engineers and Technicians, Tarnów Branch, and sat on its Executive Board. Since March 2019, he has served as Member of the Board of the Polish Chamber of Chemical Industry, and since December 2019 - also as Member of the Board the University of Applied Sciences in Tarnów.

Mr Paprocki has sat on the Supervisory Board of Grupa Azoty S.A. since June 2013, having been elected by the company's employees. He also previously served as Member of the Supervisory Board from November 2010 to April 2013. 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.

Paweł Bielski - Member of the Supervisory Board

A graduate of the master's and doctoral programme at the Faculty of Chemical and Process Engineering, Warsaw University of Technology, Mr Bielski holds a doctoral degree in engineering. He also completed post-graduate studies in Management at the Warsaw School of Economics, and the Strategic Leadership Academy at the ICAN Institute. In 2000-2001, Mr Bielski worked for Endress + Hauser Poland Sp. z o.o., and later for Mennica-Metale Szlachetne S.A. (first as Head of Quality Control Department and in 2005-2009 as Sales and Marketing Director).

In 2009-2013, he was Head of the Strategy and Development Division at Zakłady Azotowe Puławy S.A. and in 2010-2012 also worked for Melamina III Sp. z o.o. (a special purpose vehicle established to build the Puławy Power Plant). In 2014-2016, he held the position of Head of the Corporate Strategy and Development Department at Grupa Azoty S.A.

Since 2016, Mr Bielski has served as Director of the Łukasiewicz Research Network - Ignacy Mościcki Industrial Chemistry Research Institute, and since early 2020 - also as Director of the Łukasiewicz Research Network - Ignacy Mościcki Biotechnology and Antibiotics Research Institute.

He is Member of the Board of Advisers to the President of the Łukasiewicz Research Network, Deputy Chairman of the Board of the Polish Chamber of Chemical Industry

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, and a post-graduate course at the Faculty of Economics of the University of Warsaw in innovative economy and the role of economic policy. He has completed many training programmes in the operation and assessment of economic and financial condition of companies, preventive role of supervisory boards, management control and internal audit.

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. In 2017-2019, Mr Czajkowski worked for the State Treasury Department of the Chancellery of the Prime Minister of Poland, where he was responsible for performance of tasks related to the exercise of owner supervision in companies of key importance to the Polish economy and other state-owned companies. At present, he serves as head of unit at the Development Instruments Department of the Chancellery of the Prime Minister, with responsibility for performance of tasks related to the exercise of owner supervision in companies that are part a network of development driving organisations established by the Polish government and to coordination of the exercise by the State Treasury of its rights in state-owned companies.

Monika Fill - Member of the Supervisory Board

In 1998, Ms Fill was awarded MA in European Studies from the University of North London, UK. She also holds master's degrees in social studies and English studies from the Faculty of Applied Social Sciences and the Faculty of Modern Languages, University of Warsaw, respectively.

Since December 5th 2016, she has served as Member of the Supervisory Board of Grupa Azoty S.A. Previously, Ms Fill worked in the financial and pharmaceutical sectors, holding managerial positions in sales and marketing at various Polish and foreign companies, including Prudential Plc, PZU SA and the Warsaw Stock Exchange, where she successfully developed and implemented sales support campaigns and other complex business projects. In 2006-2010, she served successively as Member of the Supervisory Board, Vice President of the Management Board, Sales and Marketing, and President of the Management Board of Pocztove Towarzystwo Ubezpieczeń Wzajemnych (a mutual insurance company). She also has experience in product marketing and B2B sales in the pharmaceutical industry. Since 2019, she has sat on the Supervisory Board of Polski Holding Hotelowy Sp. z o.o.

Ms Fill is a member of the British Alumni Society. She was President of the Management Board of the PZU Foundation and the WSE Foundation. Since 2012, she has run her own consulting business. She completed postgraduate insurance studies at the Academy of Finance of Warsaw and an Executive MBA programme and is licensed to serve on the supervisory boards of state-owned companies.

Robert Kapka - Member of the Supervisory Board

Mr Kapka has served as Member of the Supervisory Board of Grupa Azoty S.A. since June 2013, having been elected to the position by the company's employees.

He holds a master-of-science degree in light chemical technology from the Cracow University of Technology, Faculty of Chemical Engineering and Technology. 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.

Completed an MBA post-graduate course - University of Dąbrowa Górnicza.

With Grupa Azoty S.A. (formerly Zakłady Azotowe w Tarnowie-Mościcach S.A.) since 1999, Mr Kapka has successively held the following positions at the company: 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. Since December 2014, he has been Head of Plastics Production Unit in Tarnów, Plastics Business Segment. From July 2016 to March 17th 2017, he served as 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 in 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 worked as a sole practitioner. 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.

Roman Romaniszyn - Member of the Supervisory Board

Mr Romaniszyn graduated from the Faculty of Electrical Engineering, Automatics and Electronics, the AGH University of Science and Technology of Kraków, with a major in power generation. Also, he completed a post-graduate course in energy audit at the AGH University of Science and Technology of Kraków and a post-graduate course in business basics at the Cracow University of Technology. In 2015, he passed the exam for candidates to supervisory boards of state-owned companies. He was elected as Member of the Supervisory Board by the employees.

With Grupa Azoty S.A. since 1996, Mr Romaniszyn has successively held the following positions at the company: process engineer at the Electrical Engineering Department and then deputy manager and manager (since 2003) of the Power Supply and Security Division at the Power Centre. He is also Member of the Management Board of the Association of Polish Electrical Engineers, Branch No. 3 in Tarnów, Vice President of PTTK (Polish Tourist Association) Branch at Grupa Azoty S.A. and a 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 2019:

- Ireneusz Purgacz - Chair,
- Michał Gabryel,
- Tomasz Karusewicz.

Following changes in the composition of the Supervisory Board made on February 26th 2019, on March 7th 2019 the Supervisory Board passed a resolution to fill the vacancy on the Audit Committee and appoint its Chair. The Supervisory Board appointed Marcin Pawlicki and Paweł Bielski to the Committee. It also appointed Michał Gabryelow as Chair of the Audit Committee.

As a result, as of March 7th 2019, the Audit Committee is composed of:

- Michał Gabryel - Chair,
- Marcin Pawlicki - Member,
- Paweł Bielski - Member.

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.

Independence criteria

The independence criteria set out in Annex II to the Commission Recommendation of 15 February 2005 on the role of non-executive or supervisory directors of listed companies and on the committees of the (supervisory) board (EU OJ L 52/51 of 2005) in the reporting period were met by Michał Gabryel and Marcin Pawlicki.

Expertise and competence

Michał Gabryel - Chair

In 1998-2002, he completed a number of courses in management and control of local government units. He completed a preparatory course for candidates to supervisory boards of state-owned companies. He has more than 30 years of experience in managerial or supervisory positions requiring extensive knowledge of financial and tax matters.

Marcin Pawlicki - Member

A graduate of the Polish Open University in Warsaw (currently the Vistula University of Warsaw), Faculty of Management and Marketing, completed an MBA course at Oxford Brookes University and a preparatory course for candidates to supervisory boards of state-owned companies. As part of his professional career, he has performed numerous activities involving analysis and assessment of financial statements and other documents related to accounting and financial reporting of businesses.

Paweł Bielski – Member

As a manager, he deals with accounting, reporting and tax matters on a regular basis. This hands-on experience is complemented with skills acquired during a post-graduate course at the Collegium of Management and Finance of the Warsaw School of Economics, as well as during courses in management and finance. He also completed a preparatory course for candidates to supervisory boards of state-owned companies.

He earned a Master of Science in Engineering from the Faculty of Chemical and Process Engineering, and received a Sc.D. degree from the Warsaw University of Technology. In the following years, he gained professional experience working as Chief Specialist for Chemical Processes and Analyses, Head of Quality Control Department, Sales and Marketing Director, Head of Strategy and Development Division. In 2014–2016, as Head of the Corporate Department for Strategy and Development at Grupa Azoty S.A., in charge of the R&D strategy, development and investment project supervision, Paweł Bielski was involved in developing and implementing the Company's business strategy and managing its key growth projects, including petrochemical, gasification and coke gas projects. At present, he is Director of the Ignacy Mościcki Industrial Chemistry Research Institute, Poland's leading research institute in applied and development research in chemistry and chemical technologies.

Consents for the provision of permitted services

In 2019, the Audit Committee approved the provision of the following services with Ernst & Young Audyt Polska spółka z ograniczoną odpowiedzialnością sp. k., the auditor of the Grupa Azoty Group (the Auditor):

- audit by the Auditor's related parties of the consolidation packages as at December 31st 2018 and opening balance sheet packages prepared for the purpose of accounting for the acquisition of shares in Goat TopCo GmbH;
- training of an employee as part of a post-graduate MBA course organised by the University of Dąbrowa Górnicza in partnership with Ernst & Young sp. z o.o. Academy of Business sp.k. (a related party of the Auditor);
- provision by Ernst & Young sp. z o.o. Academy of Business sp. k. (a related party of the Auditor) of additional non-audit services consisting in the training of two employees in open training sessions;
- certification by the Auditor of correctness of the calculation of Grupa Azoty Group's debt ratios for the purpose of submission by the Parent of a compliance certificate to the European Investment Bank, together with a calculation of financial liabilities;
- carrying out for Grupa Azoty POLICE agreed-upon procedures regarding assurance by the Auditor of the data contained in the prospectus prepared in connection with the share capital increase at Grupa Azoty POLICE for the purposes of Dom Maklerski PKO BP;
- review by the Auditor and its related parties, with respect to the Parent's foreign subsidiaries, of the consolidation packages prepared for the purpose of preparing Grupa Azoty Group's interim condensed consolidated financial statements;
- review of the interim condensed separate financial statements and the interim condensed consolidated financial statements for the first half of 2019;

- review of Grupa Azoty POLICE's financial statements for the six months ended June 30th 2019 and review of the consolidation packages prepared for the purpose of preparing Grupa Azoty POLICE Group's interim condensed consolidated financial statements for the six months ended June 30th 2019;
- review of Grupa Azoty PUŁAWY's financial statements for the six months ended June 30th 2019 and review of the consolidation packages prepared for the purpose of preparing Grupa Azoty PUŁAWY Group's interim condensed consolidated financial statements for the six months ended June 30th 2019;
- training of the finance and accounting staff of the Company and Grupa Azoty Group subsidiaries as part of open, free conferences;
- review by the Auditor and its related parties, with respect to the foreign subsidiaries, of consolidation packages prepared for the purpose of preparing the Group's consolidated financial statements for the year ended December 31st 2019;
- review of the consolidation packages prepared for the purpose of preparing the consolidated financial statements of the Parent's subsidiaries listed on the Warsaw Stock Exchange.

Key assumptions underlying the audit firm selection policy

The purpose of the policy for selecting the audit firm to perform the audit is to ensure compliance of the Company's activities with the Polish Act on Statutory Auditors, Audit Firms, and Public Oversight of May 11th 2017 and Regulation (EU) No 537/2014 of the European Parliament and of the Council of 16 April 2014 on specific requirements regarding statutory audit of public-interest entities and repealing Commission Decision 2005/909/EC, including the performance of the obligations laid down in Art. 130.1 of the Act on Statutory Auditors.

The principal assumptions underlying the policy for selection of an audit firm to audit Grupa Azoty Group's financial statements (the "Policy"):

1. The Audit Committee is responsible for developing and amending the Policy.
2. The Audit Committee adopts or amends the Policy by way of a resolution, and then submits it to the Company's Supervisory Board for approval.
3. The Company's Supervisory Board approves or amends the Policy by way of a resolution.
4. The Policy is subject to annual review to ensure that it reflects changes in the Company's legal environment and guidelines issued by relevant Authorities.
5. The maximum continuous duration of a statutory audit engagement referred to in the second subparagraph of Article 17(1) of Regulation No 537/2014 of the same audit firm or an audit firm affiliated with that audit firm or any member of its network within the European Union to which those audit firms belong shall not exceed five years.
6. The lead auditor may not carry out a statutory audit in the same public-interest entity for a period of more than five years.
7. The lead auditor may again perform the statutory audit in the entity referred to in Par. 4.4 after the lapse of at least three years from the end of the last statutory audit.
8. The first contract with the audit firm for the audit of the financial statements should be concluded for not less than two years with an option to extend its term for subsequent periods of two years or more. However, the aggregate duration may not exceed the period specified in item 5.
9. When selecting the audit firm, Members of the Company's Audit Committee and its Supervisory Board should be guided by the following criteria:
 - Both the audit firm and the lead auditor should meet the independence and impartiality criteria referred to in the Act on Statutory Auditors and the Regulation;
 - There should be no other threats to the independence of the audit firm and the lead auditor; in particular, the audit firm may not provide the Company or the Group with services prohibited under the Regulation and the Act on Statutory Auditors;
 - The audit firm should have competent staff, sufficient time and other resources required to duly perform the audit;
 - The audit firm should have the knowledge of the industry in which the Company and the Group operate;
 - The audit firm and the lead auditor should meet other criteria prescribed by law, including the rotation of the audit firm and the lead auditor.

The purpose of the policy for providing the Grupa Azoty Group with additional services by an audit firm is to ensure compliance of the Company's activities with the Polish Act on Statutory Auditors, Audit Firms, and Public Oversight of May 11th 2017, including compliance with Art. 130.1 of that Act, and with Regulation (EU) No 537/2014 of the European Parliament and of the Council of 16

April 2014 on specific requirements regarding statutory audit of public-interest entities and repealing Commission Decision 2005/909/EC.

The key assumptions underlying the policy for providing additional services by the audit firm:

1. The Audit Committee is responsible for developing and amending the Policy.
2. The Audit Committee adopts or amends the Policy, and then submits it to the Company's Supervisory Board for approval.
3. The Company's Supervisory Board approves or amends the Policy by way of a resolution.
4. The Policy is subject to annual review to ensure that it reflects changes in the Company's legal environment and guidelines issued by relevant Authorities.

Prohibited services

Neither the auditor nor the audit firm may provide, directly or indirectly, the Company or the companies it controls with any services prohibited under Regulation 537/2014 or the Act on Statutory Auditors during the following periods:

- between the beginning of the period audited and the issuing of the audit report;
- in the financial year immediately preceding the period referred to in item 1) above with respect to designing and implementing internal control or risk management procedures related to the preparation and/or control of financial information or designing and implementing financial information technology systems.

Additional services

The auditor or audit firm may provide the Company or the companies it controls with additional services if doing so is approved by the Audit Committee following an appropriate assessment of threats to the audit firm's independence as well as the safeguards applied to mitigate those threats.

Recommendation to select an audit firm

The auditor was selected on March 28th 2017, prior to the entry in force of the Polish Act on Statutory Auditors, Audit Firms, and Public Oversight of May 11th 2017. For this reason, the audit firm was selected in accordance with the previous Act.

On September 12th 2019, the Supervisory Board resolved to appoint the auditor for separate financial statements of Grupa Azoty S.A. and consolidated financial statements of the Grupa Azoty Group in 2020-2021.

The Supervisory Board made its decision on the basis of and in accordance with the Audit Committee's recommendation contained in a resolution, following a procedure carried out by the Audit Committee (jointly with the Grupa Azoty Group companies) to ensure the selection of an independent and impartial entity qualified to audit the financial statements.

The audit firm selection procedure was in line with the Policy for the selection of an audit firm to audit Grupa Azoty Group's financial statements.

The auditor appointed to perform the review and audit of separate financial statements of Grupa Azoty S.A. and consolidated financial statements of the Grupa Azoty Group in 2020-2021 is BDO spółka z ograniczoną odpowiedzialnością sp.k., with its registered office at ul. Postępu 12, 02-676 Warsaw, Poland.

The Audit Committee held 11 meetings in 2019.

Other Supervisory Board's committees

On February 1st 2018, the Supervisory Board resolved to establish a Strategy and Development Committee and a Nomination and Remuneration Committee.

As at January 1st 2019, the Strategy and Development Committee was composed of:

- Robert Kapka - Chair,
- Piotr Czajkowski - Member,
- Zbigniew Paprocki - Member.

On March 29th 2019, the Supervisory Board appointed Paweł Bielski to the Strategy and Development Committee.

Following the appointment, the composition of the Audit Committee is as follows:

- Robert Kapka - Chair,
- Paweł Bielski - Member,
- Piotr Czajkowski - Member,
- Zbigniew Paprocki - Member.

As at the date of this Report, the Nomination and Remuneration Committee was composed of:

- Bartłomiej Litwińczuk - Chair,
- Piotr Czajkowski - Member,
- Monika Fill - Member,
- Roman Romaniszyn - Member.

8.13. Diversity policy

The Group in its operations 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. 11³ 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 employment opportunities.

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 at the Parent are provided for in the Collective Bargaining Agreement and the Work Rules. Persons holding key managerial positions 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. The contracts are effective as of June 29th 2018, except for the contract with Mr Tomasz Hryniewicz, which is effective as of June 12th 2019.

Each managerial contract provides that if such contract is terminated upon discontinuation of holding a position 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. The period of holding the position includes the effective periods of the managerial contract(s) previously executed with the Company. No severance payment is due if:

- 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,
- the Management Board Member is appointed to the management board of a Group company.

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.

Remuneration of Management Board members comprises:

- a fixed component in the form of a monthly base pay (Fixed Remuneration),
- a variable component representing additional remuneration payable for the Parent's financial year (Variable Remuneration).

The Variable Remuneration depends on the progress of implementation of management objectives and may not exceed 100% of the Fixed Remuneration in the previous financial year for which the Variable Remuneration is calculated. The Supervisory Board determines the amount of Variable Remuneration for a given financial year by way of a separate resolution.

Variable Remuneration is paid after:

- the Directors' Report on the Company's operations and the financial statements for the previous financial year have been approved,
- 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 passed a resolution on performance of the management objectives and the amount of variable remuneration due.

The Management Board members have been provided, to the extent necessary to perform their managerial duties, with Company-owned technical equipment and other resources, in particular a company car, a mobile phone and a portable computer, along with the necessary additional equipment.

The rules of using a company car for private purposes and the rules for providing the Management Board members with equipment are set forth in separate internal regulations applicable at the Parent. If a Management Board member's place of residence is outside the location of the Parent's registered office, the member may request the Supervisory Board to approve the grant of the right to tied accommodation in the location of the Company's registered office, on the terms specified in a resolution of the General Meeting.

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: parking space for a private car, a portable computer with Internet access, and a mobile phone with unlimited business calls.

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			Remuneration potentially due
	fixed remuneration components	variable remuneration components	Total	
Wojciech Wardacki, PhD	792.0	720.01 ¹⁾	1,512.0	792.0
Witold Szczypiński	684.0	692.12 ²⁾	1,376.1	684.0
Mariusz Grab	684.0	24.3	708.3	684.0
Tomasz Hryniewicz	311.2	12.0	323.2	342.0
Grzegorz Kądziałowski, PhD	684.0	306.63 ³⁾	990.6	684.0
Paweł Łapiński	684.0	713.44 ⁴⁾	1,397.4	684.0
Artur Kopeć	528.0	360.75 ⁵⁾	888.7	528.0

¹⁾ including annual bonus for 2017: PLN 699.7 thousand

²⁾ including annual bonus for 2017: PLN 692.1 thousand

³⁾ including annual bonus for 2017: PLN 304.7 thousand

⁴⁾ including annual bonus for 2017: PLN 692.1 thousand

⁵⁾ including annual bonus for 2017: PLN 360.3 thousand

Remuneration potentially due comprises an accrual for the annual bonus for 2019, whose payment is contingent on performance in accordance with the rules of procedure approved by the Supervisory Board. The remuneration is expected to be paid in 2020.

Remuneration of the Parent's Supervisory Board members

	Remuneration paid		
	fixed remuneration components	variable remuneration components	Total
Paweł Bielski	117.4	0.9	118.3
Piotr Czajkowski	157.0	0.6	157.6
Monika Fill	157.0	0.3	157.3
Michał Gabryel	171.1	0.5	171.6
Robert Kapka ¹⁾	413.5	0.5	414.0
Tomasz Karusewicz	43.0	0.0	43.0
Bartłomiej Litwińczuk	171.1	0.5	171.6
Zbigniew Paprocki ²⁾	330.6	0.5	331.1
Marcin Pawlicki	123.7	2.5	126.2
Ireneusz Purgacz	42.6	0.2	42.8
Roman Romaniszyn ³⁾	263.8	0.3	264.1

¹⁾ including remuneration under employment contract with the Company - PLN 242.4 thousand

²⁾ including remuneration under employment contract with the Company - PLN 161.1 thousand

³⁾ including remuneration under employment contract with the Company - PLN 106.7 thousand

Remuneration of the Parent's management and supervisory personnel for holding office at the Group's subsidiaries

	Remuneration paid		
	fixed remuneration components	variable remuneration components	Total
Mariusz Grab ¹⁾	-	119.5	119.5

¹⁾ Remuneration is the annual bonus for 2017 paid in 2019.

Further information on remuneration

In 2019, at the Parent, the base pay and the allowance for work in a continuous system increased on average by PLN 250 and PLN 50 per employee, respectively, starting from January 1st 2019. In 2019, there were no collective redundancies. Nor was there any collective dispute with trade unions.

In 2019, the Financial Supervision Authority registered a change in the Employee Pension Scheme, consisting in a change of the basic contribution from PLN 100 to 3.5% of the remuneration. The change became effective as of May 1st 2019.

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.

Policy for social and sponsorship activities

Social and sponsorship activities are carried out in accordance with the 'Group Policy and Rules of CSR and Sponsorship Activities', prepared and implemented in 2013, while charitable activities are subject to the 'Grupa Azoty Group's Donation Policy' and the 'Grupa Azoty Group's Donation Rules' adopted in 2013.

The Grupa Azoty Group supports sports, cultural activities, including mass cultural events, education facilities for children and youth, medical facilities for employees and their families, research and scientific programmes, environmental initiatives in the region, social initiatives.

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,
- Nationwide and international social and sponsorship projects, going beyond the framework of local initiatives.

Objectives of the social and sponsorship activities:

- Building a positive image of the Group as a community- and environment-friendly business organisation, the leader of the chemical industry in Poland and Europe,
- 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 the attractiveness of the regions in which the Group operates as places to live, work, pursue passions and fulfil ambitions, and creating the best possible education and health conditions for children and young people,
- Supporting promotional and commercial activities.

Donation policy

The donation policy of the Grupa Azoty Group sets forth the rules of making donations and applies to all Group companies. 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.

All donations are made in line with the Group-wide Donation Policy as well as Donation Rules defined by the individual companies within the Group.

The Grupa Azoty Group builds its socially friendly image in the region by supporting various initiatives, including:

- 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 business category relates to sponsorship activities related to financing:

- professional sport, including sports clubs,
- sports associations and national and international competitions organised by the associations, including team sports leagues,
- the Polish Olympic Committee,
- individual athletes with the consent of the National Sports Union.

The Parent carries out numerous projects, especially local ones, to engage its stakeholders in a joint effort.

In 2019, the Company employees together with their families, as well as residents of Tarnów, were invited to the Doors Open Day at Grupa Azoty S.A. (held as part of the 2019 Chemist's Day at Grupa Azoty S.A.). The Chemist's Day at the Grupa Azoty Group was held under the slogan "The Chemistry between Us". The participants were given an opportunity to meet with athletes supported by the Grupa Azoty Group and take part in culture and sports events, cooking shows, leisure activities and creativity classes. The games, plays and competitions attracted numerous guests of all ages. The Day's celebrations ended with a concert featuring star performers. Admission to the event was free. The Chemist's Day at the Grupa Azoty Group also had a corporate aspect as it was organised at the locations of the four largest companies of the Grupa Azoty Group (Tarnów, Police, Puławy and Kędzierzyn-Koźle). All four events were held under the slogan "The Chemistry between Us". By organising the Chemist's Days at its largest companies, the Grupa Azoty Group proves that strength results from unity.

Community Development

In 2019, the Group companies conducted a wide range of CSR initiatives. Through these activities, which include educational, cultural and sports projects, the companies support their local communities and regions, thus building and promoting their perception as valued and respected partners and neighbours. These activities also contribute to a significant tightening and strengthening of positive relations between the company and its immediate environment.

Development of education

Grupa Azoty S.A. has a long-standing commitment to promoting the local community development, which is delivered through various educational activities, campaigns and programmes designed to support children and young people in pursuing their interests, improving their skills and acquiring new knowledge in such fields as environmental protection. In 2018, Grupa Azoty S.A. worked in partnership with schools from the Tarnów region, including

- Technical School Complex in Tarnów,
- Sports School Complex in Tarnów.

Grupa Azoty S.A. seeks to give this collaboration a long-term dimension. For instance, under an agreement with the Ignacy Mościcki Technical School Complex the Company plans to employ up to ten students each year, provide apprenticeship opportunities, help prepare classes and organise educational field trips, and offer support in applying for EU funds.

As part of its nationwide efforts, Grupa Azoty S.A. supported the Polish Chemical Society in the 65th Chemistry Olympiad and the 51st International Chemistry Olympiad.

Development of sports

The sports development initiatives cover the sports most popular in Poland, such as ski jumping, volleyball, speedway, football, as well as field and track sports. Supporting the best Polish athletes is one of the key elements in building the awareness of the Grupa Azoty brand. In its activities, the Company attaches great importance to supporting local sports, including both professional sports and children's and teenagers' sport activities, as part of CSR activities.

The Group's partnership also covers nationwide sports events, and the best known initiative is the cooperation with the Polish Skiing Association as the Main Partner. As part of this cooperation, Grupa Azoty has for many years supported, among others, the Polish ski jumping team. The Group's support for winter sports takes multiple forms, including sponsoring individual athletes or acting as the main sponsor of major sports events in Poland: the ski jumping World Cup contests in Wisła and Zakopane.

Development of culture

Believing that culture is an invaluable social phenomenon and an integral system within the process of education, which stimulates imagination, sensitivity and creativity of successive generations and plays a significant role in shaping both individual and national identity, Grupa Azoty undertook the following initiatives:

- organisation of cultural events and workshops promoting respect for the national and cultural identity,
- support of cultural projects and programmes promoting the region,
- support for projects promoting national culture.

Protection of life and health

Aware of the need to engage in initiatives for the protection of human health and life, help the suffering, sick and terminally ill, as well as those deprived of opportunities for development and unable to function on their own in society, last year the Company extended particular support to the institutions which help those in need.

8.16. Report on entertainment expenses, legal costs, marketing costs, public relations and social communication expenses and management consultancy fees, and report on report on compliance with best practices issued pursuant to the Act on State Property Management

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 VAT tax.

Pursuant to Art. 56.2) of the Articles of Association, the Management Board is also obliged to prepare, within three months from the reporting date, a report on compliance with best practices issued pursuant to Art. 7.3 of the Act on State Property Management of December 16th 2016. As the practices had not been issued by the date of this Report, no report on compliance with best practices has been prepared.

8.16.2. Expenses

Public relations and social communication expenses were PLN 15,688 thousand (PLN 16,007 thousand including gifts), compared with PLN 16,281 thousand (PLN 16,396 thousand including gifts) in 2018.

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 were PLN 2,145 thousand (PLN 2,229 thousand including gifts), compared with PLN 2,237 thousand (PLN 2,239 thousand including gifts) in 2018.

Marketing expenses are mainly related 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 were PLN 9,570 thousand (2018: PLN 9,120 thousand).

The fees were paid in particular for consultancy services relating to mergers and acquisitions, strategic and organisational planning (business consulting), production management, HR advisory services, business and financial analysis.

Legal fees were PLN 1,650 thousand (2018: PLN 4,629 thousand).

The fees were paid in particular for legal opinions, legal advice concerning equity investments, strategic plans, and patent advice.

Entertainment expenses were PLN 587 thousand (2018: PLN 326 thousand).

9. Other material information and events

9.1. Qualified auditor

Based on the representations of the Parent's Supervisory Board, we state that the audit firm appointed to audit the full-year separate financial statements and full-year consolidated financial statements has been selected in accordance with applicable laws, including those governing the audit firm selection and appointment procedure. We also state that:

- a) the audit firm and the auditors who performed the audit met the conditions required to issue an objective and independent audit report, in accordance with the applicable laws, professional standards, and professional ethics;
- b) the laws governing the rotation of audit firms and lead auditors and mandatory cooling-off periods have been complied with;
- c) the Company has in place a policy for selection of an audit firm and a policy governing the provision to the Company of additional non-audit services (including services conditionally exempt from the prohibition of being provided by the auditor of financial statements) by the auditor, the auditor's related party or a member of the auditor's network.

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.

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	2019	2018
Audit of the full-year separate and consolidated financial statements of the Parent and the Group	507	398
Review of the half-year separate and consolidated financial statements of the Parent and the Group	149	79
Other services*	215	101
Total	871	578

* Other services in 2019: remuneration related to the expansion of the scope of audit of the financial statements for 2019 and for services performed as part of the remuneration for the performance of an assurance service with respect to indicators prepared in accordance with the GRI standard, contained in the non-financial statement prepared by the Company, in 2018: remuneration for the performance of agreed-upon procedures relating to the terms and conditions of credit facility agreements, remuneration for the performance of an assurance service with respect to the indicators prepared in accordance with the GRI standard and contained in the non-financial statement prepared by the Company, and remuneration for the performance of the assurance service with respect to the works and expenses statement concerning the performance of tasks set forth 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	2019	2018
Audit of the full-year separate and consolidated financial statements of the companies and audit or review of the consolidation package*	3,930	2,690
Review of the half-year separate and consolidated financial statements of the company and review of the consolidation package	487	232
Audit of the consolidation package as at November 30th 2018 (opening balance sheet)**	-	942
Audit of the consolidation package as at December 31st 2018 (closing balance sheet)**	-	1,539
Other services***	29	202
Total	4,446	5,606

* The audit of the full-year separate and consolidated financial statements in 2018 includes the fee for the audit carried out at COMPO EXPERT and its subsidiaries for the financial year ended September 30th 2018, i.e. prior to the date of acquisition of the group by Grupa Azoty S.A.

** Audit of consolidation packages as at the acquisition date and the reporting date, carried out in connection with the incorporation of COMPO EXPERT and its subsidiaries into Grupa Azoty S.A.

*** In 2018, other services included tax advisory services (services at COMPO EXPERT and its subsidiaries prior to their incorporation into the Grupa Azoty Group).

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 was based 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).

At the Grupa Azoty Group, sustainable development is achieved through:

- reduction and minimisation of negative environmental impacts
- investing in research and development, developing cooperation with scientific institutions
- search for new technological solutions
- staff education
- building environmental awareness
- safe operation of production units

Respect Index

The fact that the Parent had been a constituent of the RESPECT Index from its launch on November 19th 2009 to its expiry on December 31st 2019 stands as a testament to its care for sustainable development and responsible management.

The purpose of the RESPECT project was to bring to light the companies that excelled in communication with the market through current and periodic reports and through websites. Inclusion in the RESPECT Index depended, among other things, on socially responsible conduct vis-à-vis the environment, the community and employees.

The selection of companies included in the Index was a three-stage process. The criteria evaluated in the selection process included 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. was part of an elite group of stable, reliable and trustworthy organisations. Grupa Azoty S.A.'s inclusion in the RESPECT Index provided investors with additional assurance that Grupa Azoty S.A. was a stable and safe enterprise, managed to the highest standards of sustainable development.

On September 3rd 2019, in place of the RESPECT INDEX, the Warsaw Stock Exchange (WSE) launched a new index, WIG-ESG. It consists of companies listed in the WIG20 and mWIG40 indices, i.e. the blue chips of the WSE, such as Grupa Azoty S.A. WIG-ESG reflects the value of a shares in socially responsible companies, i.e. those that adhere to the principles of corporate social responsibility, in particular with respect to environmental, social, economic and corporate governance matters.

Legal requirements

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

In the reporting period, Grupa Azoty S.A. obtained the following decisions:

- Amendment of the decision of the Marshal of the Kraków Province dated April 28th 2017, granting permission to participate in the European Union Emissions Trading Scheme for the CHP plant located on the premises of the Parent (decision of the Marshal of the Kraków Province dated September 16th 2019), valid for an indefinite term;
- Amendment of the decision of the Marshal of the Kraków Province dated November 24th 2017, 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 (decision of the Marshal of the Kraków Province dated June 13th 2019);
- Decision of the Regional Water Management Authority of Kraków of July 1st 2019, granting permission to discharge wastewater containing substances particularly harmful to the water environment into the sewerage system of Zakład Oczyszczania Ścieków T.W. Sp. z o.o., valid until July 1st 2023;
- In addition, the Company filed applications for amendment of the integrated permits for the unit producing cyclohexanone from phenol and the caprolactam unit, and an application for amendment of the waste collection permit.

The Group companies were actively involved in consulting the new set of legal acts on waste, presenting their comments and proposing amendments.

To fulfil German legal requirements (Verpack V packaging regulation and Verpack G packaging act) in connection with to exporting to Germany packaged products, the Grupa Azoty Group companies registered their packaging with the Central Packaging Register LUCID (for the B2C segment) and as of January 1st 2019 have in place agreements for collection and recycling of packaging.

Environmental projects

Major environmental projects carried out in 2019 by Grupa Azoty S.A. included the 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 2019, a number of projects were pursued by Grupa Azoty S.A. to reduce the consumption of energy carriers in production processes and make more efficient use of available resources. The main projects in this area included projects to make comprehensive use of reaction heat from selective phenol hydrogenation, construct a turbine generator using steam from the Sulfuric Acid Unit and the Dual-Pressure Nitric Acid Unit and a 4 MPa steam pipeline from the Sulfuric Acid Unit to the Dual-Pressure Nitric Acid Unit, as well as to alter the pumping system of the first heating segment.

Among other important environmental projects were those related to the adaptation of the company's heat and power generation activities to the more stringent environmental requirements resulting from BAT conclusions.

Waste management

In 2019, the main waste was fly ash from coal, which was transferred to individual customers for commercial use. In accordance with the Waste Act, Grupa Azoty S.A. operates a programme of selective waste collection on its premises (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 Grupa Azoty Group companies are required to obtain an appropriate level of packaging recovery and recycling.

Emissions, including CO₂ 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 NO_x 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 SO_x, NO_x, and particulate matter emissions,
- the titanium dioxide production unit: measurement of particulate matter emissions from feedstock and dry pigment milling, as well as measurement of sulfur dioxide emissions from calcination and feedstock decomposition processes.

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. Grupa Azoty Police 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.

In addition, in accordance with the terms of its integrated permit, ambient concentrations are monitored on a 24/7 basis from three measurement stations whose location allows the company to assess the impact of pollutants generated during everyday operation of its units.

In 2019, Grupa Azoty KĘDZIERZYN's total emissions of pollutants (excluding CO₂) were lower than in 2018. The decline is mainly attributable to the projects carried out in the Heat Division (a new boiler) and the Urea Division, as well as to lower production of heat and granulated fertilizers.

On March 28th 2019, the Lublin Provincial Inspectorate for Environmental Protection imposed a fine of PLN 4,852,103 on Grupa Azoty PUŁAWY for the release of pollutants (sulfur dioxide, nitrogen oxides and particulate matter) from the Company's CHP plant in 2018, in volumes exceeding the set limits. As Grupa Azoty PUŁAWY took measures which, once completed, will ensure that the emission limits are observed, thus removing the grounds for imposing the fine (upgrade of the FGD unit and

the steam boiler), by a decision of June 11th 2019 the Provincial Inspectorate for Environmental Protection deferred the payment of the following fines:

- for excessive emissions of sulfur dioxide and particulate matter - until June 30th 2021 (PLN 3,330,998);
- for excessive emissions of nitrogen oxides - until December 31st 2021 (PLN 1,521,105).

As Grupa Azoty PUŁAWY exceeded the emission limits applicable to its CHP plant in 2019, it will be obliged to pay a fine estimated at approximately PLN 5,638,832. The Company will apply for deferral of the fines, and then for their reduction to zero, as it has commenced projects which will help remove the grounds for the fines.

In 2019, the Grupa Azoty Group companies fulfilled their obligations under the Act on Ozone-Depleting Substances and Certain Fluorinated Greenhouse Gases of June 25th 2015.

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,
- use of refrigeration systems that do not lead to exceeding permitted noise levels in areas protected from noise pollution,
- use of construction solutions that prevent vibration of equipment being a source of noise,
- planning the location of noise sources taking into account the expected impact on areas protected from noise pollution,
- preventing noise from road transport by limiting the speed of vehicles throughout the plant premises,
- making sure that the main sources of noise are technically sound.

In 2019, there were no material events with respect to the Companies' impact on the environment through noise emissions.

CO₂ emissions

In 2019, EUA prices on the EU ETS market were highly volatile.

The prices on the EU ETS market continue to be driven by issues related to:

- admission of financial institutions to the ETS market,
- implementation of the Market Stability Reserve (MSR),
- Brexit.

The average EUA price in 2019 was EUR 24.73, including a maximum price of EUR 29.77 and a minimum price of EUR 18.35.

On May 15th 2019, the European Commission published data for 2018, disclosing a market surplus of 1.6549 billion EUAs.

This means that the volume of allowances to be auctioned will be reduced by 397.178 million EUAs in the period from September 2019 to August 2020.

If the United Kingdom does not negotiate a new trade agreement with the European Union by the end of 2020, a 'hard Brexit' scenario may materialise, which, according to analysts, may reduce the price of CO₂ emission allowances to even a little as EUR 15.

Water and wastewater management

Grupa Azoty S.A. uses water for industrial purposes, as a cooling agent, treats it for drinking purposes, uses water 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 from Parent's premises are drained separately, through a collector, collected in a retention pond, and then discharged through the 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 located on 48+900 km 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 treated at 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.

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 2019, the amount of abstracted water at Grupa Azoty KĘDZIERZYN went down slightly (by 3.2%) due to a decrease in the output of products leading to lower demand for various water types. At the same time, the volume of discharged wastewater rose by 7.6%, owing to higher rainwater volumes.

In the case of main pollutants' load (COD and total nitrogen) in wastewater, the load of organic compounds rose slightly due to algal bloom contamination in the last wastewater treatment facility (Piskorzowiec), and there was also a slight increase in the load of nitrogen compounds (by 1.0%) due to lower efficiency of nitrogen compound removal in the biological part of the wastewater treatment plant in 2019 (due to the absence of an easily absorbable carbon source).

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 available at <https://tarnow.grupaazoty.com/relacje-inwestorskie> from the date of publication of the financial report, i.e. April 8th 2020.

11. Supplementary information

Explanation of differences between actual results and the financial forecasts for 2019

As no forecasts for 2019 were published, the position of the Parent's Management Board concerning achievement of such forecasts is not presented.

Litigation

There are no material court, arbitration or administrative proceedings pending with respect to any of the Group companies that would concern liabilities or debt claims as referred to in the Regulation of the Minister of Finance of April 20th 2018 on current and periodic information (Dz.U. of 2018, item 757).

Related-party transactions

In 2019, the Group companies did not execute any related-party transactions otherwise than on arm's length terms.

Parent's branches

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

Shares, share issues

In 2019, 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.

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

Signed with qualified electronic signature

.....

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

.....

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