



Consolidated statement of payments
to governments
for 2016

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1. General

1.1. Basis of preparation

This consolidated statement of payments to governments has been prepared in accordance with the provisions of Section 6a of the Accountancy Act of September 29th 1994 (Dz.U. of 2016, item 1047, as amended), and presents payments to governments made by the Grupa Azoty Group in connection with the upstream sector.

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

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

Grupa Azoty S.A., as the parent of the Grupa Azoty Group, is obliged to issue a consolidated statement of payments to governments as at December 31st 2016, including data of the Group companies operating in the upstream sector.

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

1.2. Description of the Group

The Grupa Azoty Group consisted of Grupa Azoty S.A. (the parent) and nine subsidiaries.

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

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

The Grupa Azoty Group is one of Central Europe's major chemical groups with a strong presence on the market of mineral fertilizers, engineering plastics, OXO products, and other chemicals.

Grupa Azoty has brought together companies with different traditions and complementary business profiles, seeking to leverage their potential to deliver a common strategy. This has led to the creation of Poland's largest chemical group and a major industry player in Europe. The carefully designed structure of the Group allows it to offer a diverse product mix, from nitrogen and compound fertilizers to engineering plastics to OXO products and melamine.

1.3. Upstream operations

The Grupa Azoty Group includes two subsidiaries operating in the upstream sector: Grupa Azoty Kopalnie i Zakłady Chemiczne Siarki Siarkopol S.A. and African Investment Group S.A. of Senegal.

Grupa Azoty Kopalnie i Zakłady Chemiczne Siarki Siarkopol S.A.

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

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

African Investment Group S.A.

The company's business includes exploration for and extraction of mineral resources under exploration licence. It is also involved in document drafting and applying for the required licences and concessions.

The company made payments to governments mainly with respect to two projects: Kebemer and Lam-Lam.

The Kebemer project is pursued within the area of the Senegal-Mauritania sedimentary basin, where phosphorites are widespread and their presence at current extraction sites is documented. The project site is located near Kébémér, 160 km from Dakar, where the company carries out activities related to exploration for phosphorites.

The Lam-lam project area lies near Tivaouane, some 100 km from a sea terminal. The production was carried out in parallel with exploration work and was discontinued in 2014.

2. Payments to governments by country

| | Taxes levied on income, production or profits, excluding taxes levied on consumption, such as value added taxes, personal income taxes or sales taxes | Royalties | Dividends | Licence fees, rental fees, entry fees, and other considerations for licences or concessions | Total |
|--|---|--------------|-----------|---|---------------|
| POLAND: | | | | | |
| Central and local authorities: | | | | | |
| State Treasury | - | - | 27 | - | 27 |
| Tax Office in Kielce | 2,215 | - | - | - | 2,215 |
| County Councils | - | - | - | 146 | 146 |
| Marshal Office | - | 58 | - | - | 58 |
| Regional Directorate for State Forests in Radom | - | 414 | - | - | 414 |
| Customs Chamber in Kraków | 510 | - | - | - | 510 |
| National Fund for Environmental Protection and Water Management | - | 468 | - | - | 468 |
| Undertakings supervised or controlled by the authorities: | | | | | |
| Municipality and Town Municipal Offices | - | 611 | - | 7,964 | 7,964 |
| POLAND TOTAL | 2,725 | 1,551 | 27 | 8,110 | 12,413 |
| SENEGAL: | | | | | |
| Central, regional and local authorities: | | | | | |
| Ministry of Industry and Mining: Directorate for Mining and Geology | 469 | - | - | - | 469 |
| General Directorate for Taxes and State Treasury: tax office, local government | 3,668 | - | - | - | 3,668 |
| General Directorate for Customs | 190 | - | - | - | 190 |
| SENEGAL TOTAL | 4,327 | - | - | - | 4,327 |
| TOTAL PAYMENTS | 7,052 | 1,551 | 27 | 8,110 | 16,740 |

3. Payments to governments by project

| | Taxes levied on income, production or profits, excluding taxes levied on consumption, such as value added taxes, personal income taxes or sales taxes | Royalties | Dividends | Licence fees, rental fees, entry fees, and other considerations for licences or concessions | Total |
|--|--|--------------|-----------|---|---------------|
| Payments at project level | | | | | |
| Sulfur Production Project | 667 | 1,018 | - | - | 1,685 |
| Lam-Lam ¹⁾ | 472 | - | - | - | 472 |
| Kébémér ²⁾ | 3,337 | - | - | - | 3,337 |
| Other | 2 | - | - | - | 2 |
| Total projects | 4,478 | 1,018 | - | - | 5,496 |
| Payments at entity level | | | | | |
| Payments at the level of Grupa Azoty KiZCh Siarkopol S.A. ³⁾ | 2,058 | 533 | 27 | 8,110 | 10,728 |
| Payments at the level of African Investment Group S.A. ⁴⁾ | 516 | - | - | - | 516 |
| Total payments at entity level | 2,574 | 533 | 27 | 8,110 | 11,244 |
| Total | 7,052 | 1,551 | 27 | 8,110 | 16,740 |

¹⁾ The largest item (PLN 469 thousand) is mining tax on phosphorites produced in 2013-2014.

²⁾ The largest item (PLN 3,337 thousand) is tax on non-trading income (withholding tax at 20%).

³⁾ The largest item of taxes levied (PLN 1,548 thousand) is corporate income tax, offset against value added tax; the largest item of fees is real property tax of PLN 7,926 thousand and service fees of PLN 1,018 thousand.

⁴⁾ The largest item (PLN 284 thousand) is the minimum lump-sum tax applicable to loss-making companies and companies with low profits, which are not sufficient to levy tax on the company's income.

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

4.1. Key preparation policies

This consolidated statement of payments to governments has been prepared on a cash basis. In 2016, no in-kind payments were made.

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

In the case of African Investment Group S.A., individual items of the consolidated statement of payments to governments have been translated into the Polish zloty at the exchange rates calculated as the arithmetic mean of the XOF/PLN rates quoted by the National Bank of Poland as effective for the last day of each month in the reporting period:

- In the period January 1st-December 31st 2016, the average exchange rate was XOF 1 = PLN 0.006630.

The translation has been made by multiplying amounts expressed in XOF by the exchange rate.

4.2. Key presentation policies

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

Payments

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

Governments

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

Projects

A project is defined as the operating activities carried out in a distinct exploration area under a licence obtained for that area, which form the basis for payment of liabilities to a government. Payments are disclosed at project level, except where it is impossible to assign them to a given project - in such cases payments are disclosed at entity level.

Identified payment categories

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

This consolidated statement of payments made by the Grupa Azoty Group to governments in 2016 contains 8 pages.

Signatures of Members of the Management Board

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Wojciech Wardacki, PhD
President of the Management Board

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

.....
Tomasz Hinc
*Vice President of the Management
Board*

.....
Paweł Łapiński
Vice President of the Management Board

.....
Józef Rojek
*Vice President of the Management
Board*

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

Tarnów, April 26th 2017