



Consolidated statement of payments
to governments
for 2018

Contents

1.	General information	3
1.1.	Basis of preparation.....	3
1.2.	Description of the Group	3
1.3.	Upstream operations	3
2.	Payments to governments by country	5
3.	Payments to governments by project	7
4.	Policies followed in the preparation of this report on payments to governments.....	9
4.1.	Key preparation policies.....	9
4.2.	Key presentation policies	9

1. General information

1.1. Basis of preparation

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

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

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

Grupa Azoty S.A., as the parent of the Grupa Azoty Group, is obliged to issue a consolidated report on payments to governments as at December 31st 2018, 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

Grupa Azoty S.A. is the Parent of the Grupa Azoty Group (“Grupa Azoty”, the “Group”, the “Grupa Azoty Group”).

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

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

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

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

1.3. Upstream operations

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

On December 20th 2017, the subsidiary Grupa Azoty Zakłady Chemiczne Police S.A. (“Grupa Azoty POLICE”) and DGG ECO Sp. z o.o. entered into a conditional agreement on mutual confirmation of rescission and cancellation of effects of the agreement of August 28th 2013 under which Grupa Azoty POLICE acquired a majority interest in African Investment Group S.A.

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

Therefore, as at December 31st 2018 the Grupa Azoty Group had only one upstream subsidiary, Grupa Azoty Kopalnie i Zakłady Chemiczne Siarki Siarkopol S.A.

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

African Investment Group S.A.

The company's business consisted in exploration for and extraction of mineral resources under an exploration licence. The company was also involved in document drafting and obtaining required licences.

The company made payments to governments mainly with respect to the Kebemer project.

The project is located within the Senegal-Mauritanian Basin. The project area is located near the town of Kébémér, 160 km from Dakar, where the company carried out activities related to exploration for phosphorites.

2. Payments to governments by country

Payments by country in 2018

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

Payments by country in 2017

	Taxes levied on income, production or profits, excluding taxes levied on consumption, such as value added taxes, personal income taxes or sales taxes	Royalties	Licence fees, rental fees, entry fees, and other considerations for licences or concessions	Total
POLAND:				
Central and local authorities:				
Tax Office in Kielce	528	-	-	528
County Councils	-	-	182	182
Marshal Office	-	197	-	197
Regional Directorate for State Forests in Radom	-	344	-	344
Customs Chamber in Kraków	494	-	-	494
National Fund for Environmental Protection and Water Management	-	444	-	444
Undertakings supervised or controlled by the authorities:				
Municipality and Town Municipal Offices	-	609	7,980	8,589
POLAND TOTAL	1,022	1,594	8,162	10,778
SENEGAL:				
Central, regional and local authorities:				
General Directorate for Taxes and State Treasury: tax office, local government	2,637	-	-	2,637
General Directorate for Customs	171	-	-	171
SENEGAL TOTAL	2,808	-	-	2,808
TOTAL PAYMENTS	3,830	1,594	8,162	13,586

3. Payments to governments by project

Payments by project in 2018

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

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

Payments by project in 2017

	Taxes levied on income, production or profits, excluding taxes levied on consumption, such as value added taxes, personal income taxes or sales taxes	Royalties	Licence fees, rental fees, entry fees, and other considerations for licences or concessions	Total
Payments at project level				
Sulfur Production Project	386	1,015	-	1,401
Kebemer ¹⁾	2,044	-	-	2,044
Total projects	2,430	1,015	-	3,445
Payments at entity level				
Payments at the level of Grupa Azoty KiZCh Siarkopol S.A. ²⁾	636	579	8,162	9,377
Payments at the level of African Investment Group S.A. ³⁾	764	-	-	764
Total payments at entity level	1,400	579	8,162	10,141
Total	3,830	1,594	8,162	13,586

¹⁾ The largest item (PLN 2,044 thousand) is tax on non-trading income (withholding tax at a rate of 20%).

²⁾ The largest item of taxes levied (PLN 142 thousand) is corporate income tax, offset against value added tax; the largest item of fees is real property tax of PLN 7,945 thousand and service fees of PLN 1,015 thousand.

³⁾ The largest item (PLN 433 thousand) is the fee relating to the 5% tax on the sale of a test batch of phosphates in July 2013.

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

4.1. Key preparation policies

This consolidated report on payments to governments has been prepared on a cash basis. In 2018, no in-kind payments were made.

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

In the case of African Investment Group S.A., individual items of the consolidated report on payments to governments have been translated into PLN using 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-May 30th 2018, the average exchange rate was XOF 1 = PLN 0.006355.

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 report on payments to governments:

Payments

Amounts paid to governments of individual countries, related to the exploration for, discovery, development and production of minerals, sulfur, 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 operational activities carried out in a distinct exploration area under a licence obtained for that area, which form the basis for payment liabilities to a government.

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

Identified payment categories

- a) Taxes levied on income, production or profits of the companies, excluding taxes levied on consumption, such as value added taxes, personal income taxes or sales taxes.

This payment category includes also excise tax on electricity consumption and interest accrued from the date of classifying amounts spent on acquisition or production of assets as tax-deductible expenses until the date on which the period of their use exceeds one year.

- b) Royalties

This item includes emission charges, annual charges, and environmental charges.

- c) Licence fees, rental fees, entry fees, and other considerations for licences or concessions.

This category includes also payments related to tax on means of transport used in upstream operations and paid property taxes.

This consolidated statement of payments made by the Grupa Azoty Group to governments in 2018 contains 10 pages.

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

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

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Grzegorz Kądziałowski, PhD
Vice President of the Management Board

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Mariusz Grab
Vice President of the Management Board

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

Tarnów, April 25th 2019