



Tarnów, April 25th 2019

Letter from the President of the Management Board of Grupa Azoty S.A.

Ladies and Gentlemen,

On behalf of the Management Boards of the Grupa Azoty Group companies, I present the consolidated Directors' Report on the Group's operations in 2018.

Last year was a challenging time for the entire chemical industry, including its Polish leader - the Grupa Azoty Group. A series of business headwinds - from severe weather conditions, to high stock levels, to a surge in the prices of our key feedstocks (natural gas, coal) as well as CO₂ emission allowances - made for an unfavourable macro climate for all chemical sector companies.

For 2018, the Grupa Azoty Group reported consolidated revenue of almost PLN 10bn, a year-on-year increase of PLN 380m. The Group's 2018 EBITDA came in at PLN 764m. Despite the challenging business environment, the Grupa Azoty Group managed to successfully carry on with its strategy until 2020.

Last summer, we entered into a series of agreements with financing institutions to secure funding for our corporate projects until 2026. By leveraging favourable conditions on the financial market and excellent financial results posted for 2017, the Group succeeded in optimising the loan terms so that repayment dates fall between 2022 and 2028, after the period of the most intensive capital spending on our strategic projects.

With regard to consolidation, one of the four pillars of our strategy, by launching the Corporate Agro Sales Department, we started operating on the fertilizer market as a single entity, leveraging the strength of the Grupa Azoty brand. The repeatedly expressed concerns about the companies becoming overly interdependent have not materialised. Today, the department's staff exploit the synergies and strength of the Group companies to achieve their sales targets.

In 2018, we closed one of the largest acquisitions in the Group's history. For nearly PLN 1bn, the Grupa Azoty Group acquired Compo Expert, one of the leading manufacturers of high value-added speciality fertilizers. In this way, we support our strategic objective to reinforce the Group's leadership in agricultural solutions on the European market. The transaction will further solidify the Grupa Azoty Group's position among the international leaders in solutions for the Agro segment. We expect it to boost revenue and give us access to innovative technologies, enhancing our competitive power in the long term.

In order to achieve another strategic objective of diversifying our business, last year we focused our efforts on furthering the Polimery Police project. This flagship project, preparations for which are now coming to an end, will be of strategic importance both to the Grupa Azoty Group and the entire Polish economy. Once it comes on stream, the new unit will increase Poland's independence in energy and raw material supplies. The launch of a new liquid fuels terminal, newly created jobs for highly qualified staff and the fact that the project will provide a springboard for the development of Polish science and the R&D sector will benefit both the local and national economy.



We also remain committed to R&D, raising our capabilities and ensuring appropriate research infrastructure. As part of these efforts, a new Research and Development Centre was opened in Tarnów, and work to construct and equip a pilot-plant laboratory in Puławy was under way. This is opening up prospects for us to develop and market innovative products based on our proprietary know-how.

I would like to thank all employees of the Grupa Azoty Group companies for their efforts in transforming the Group into a modern, efficient and effective organisation. Let me also take this opportunity to express my gratitude to the Management Boards of the Group companies for their collaboration in running bold and ambitious projects. Last but not least, I would also like to offer my thanks to the Supervisory Boards.

Yours faithfully,

*Wojciech Wardacki, PhD
President of the Management Board,
Grupa Azoty S.A.*