

## Answers to shareholder's questions

### Question 1

*Please provide a detailed accounting for the acquisition of COMPO EXPERT International, purchased for more than PLN 1.2bn in 2018.*

*- the effects Grupa Azoty achieved as a result of the acquisition*

*What is the increase in the volume of Grupa Azoty fertilizers and other products sold through COMPO EXPERT's sales network - the financial statements fail to present any figures that would reflect the acquisition of that company.*

*Please provide details of the volume of Grupa Azoty products sold by COMPO EXPERT and how much we earned on those sales in 2019.*

Answer:

### **Information about accounting for the acquisition**

In Current Report No. 58/2018 of November 26th 2018, Grupa Azoty S.A. ("Grupa Azoty", the "Company") announced the closing of the acquisition of a 100% stake in Goat TopCo GmbH of Münster, Germany (currently COMPO EXPERT Holding GmbH, COMPO EXPERT), holding 100% of the shares in subsidiary COMPO EXPERT International GmbH, following fulfilment of the conditions precedent provided for in the conditional sale agreement of September 6th 2018 (as announced by the Company in Current Report No. 54/2018 of October 12th 2018).

The amount paid by Grupa Azoty was EUR 226,637 thousand (PLN 973,966 thousand). On November 26th 2018, the transaction closing date, Grupa Azoty paid the full price for and acquired the title to the shares. For detailed information on the accounting for the acquisition of COMPO EXPERT, see periodic reports. Final accounting for the acquisition of COMPO EXPERT was made in the Grupa Azoty Group's interim consolidated financial statements as at June 30th 2019 based on fair value measurements made by an independent expert. For information about accounting for the acquisition, see also Section 1.2.1 Accounting for the acquisition of COMPO EXPERT Holding GmbH of the Grupa Azoty Group's consolidated financial statements for 2019.

### **Effects of COMPO EXPERT acquisition**

As noted at the time of closing of the acquisition of the shares in COMPO EXPERT, the transaction is consistent with Grupa Azoty's strategy to reinforce its position among the leading providers of agricultural solutions. The acquisition of COMPO EXPERT was one of the ways in which Grupa Azoty responded to developments on mineral fertilizer markets, which presented a number of challenges requiring manufacturers to seek new, advanced technological solutions and know-how. One of the main challenges posed by, among others, new regulations is improvement of fertilization efficiency, which will increase

pressure on manufacturing products and developing comprehensive solutions with greater efficiency and high added value for end users. COMPO EXPERT has a complete portfolio of specialty products addressing the needs of various types of customers. The COMPO EXPERT Group's product mix complements Grupa Azoty's portfolio by adding advanced solutions in specialty products and comprehensive fertilization programmes. Specialty fertilizers, including biostimulants as well as foliar and fertigation fertilizers, continue to be one of the fastest-growing market segments, and thus a priority area for the development of global leaders in the fertilizer sector. The presence in the specialty fertilizers sector significantly facilitates Grupa Azoty's access to innovative technologies and know-how, which is a precondition for its growth and the foundation for building long-term value for its shareholders.

For detailed information on the achievement of post-transaction synergies, see Current Report No. 67/2019 of November 15th 2019; in particular, the following key areas were identified: synergies in production know-how, sales, research and development, raw materials and products, and financing. Total synergies to be realised at the Grupa Azoty Group and COMPO EXPERT by 2024 are estimated at EUR 40m. The estimated amount comprises revenue and cost synergies as well as capex synergies. Despite the identification of these synergies, the Company adopted a conservative approach and did not include these synergies in the calculation of the purchase price of COMPO EXPERT shares; they represent an added value that may affect Grupa Azoty's performance and value in subsequent years.

The total effect of revenue and cost synergies on the Grupa Azoty Group's consolidated gross profit in the calendar year 2019 was approximately EUR 6m.

### **Information on COMPO EXPERT's sales and performance**

The financial objectives of the COMPO EXPERT acquisition are pursued on an ongoing basis, mainly through the appropriate profits generated by COMPO EXPERT's operations, which complement Grupa Azoty's product portfolio and contribute new technological and market competencies. The synergies represent added value for the Grupa Azoty Group. COMPO EXPERT manufactures and sells highly recognisable low-tonnage specialty fertilizers, distributed globally for use in specific crop types and weather conditions. Grupa Azoty manufactures and sells bulk fertilizers to other geographic markets and to other types of customers, intended for other applications. Like other synergies, potential distribution of Grupa Azoty products by COMPO EXPERT was not taken into account in COMPO EXPERT's valuation (i.e. Grupa Azoty did not pay any premium on this account when acquiring COMPO EXPERT). In order to maximise transaction effects, efforts are being made to achieve sales synergies, including joint market activities aimed at promoting and selling Grupa Azoty products on the markets where COMPO EXPERT has a strong foothold. As a result, Grupa Azoty sells its products to third parties who are COMPO EXPERT's customers, with COMPO EXPERT having played a key role in Grupa Azoty's customer acquisition. Effects of this cooperation represent added value from the transaction and are recognised in the amount of revenue and cost synergies for 2019.

COMPO EXPERT does not sell any products of other Grupa Azoty Group companies. As part of its day-to-day operations, COMPO EXPERT purchases certain products from the Grupa Azoty Group (mainly from Grupa Azoty Zakłady Chemiczne Police S.A.), which it subsequently uses as feedstocks in the manufacture of specialty fertilizers. The effects of this cooperation also represent added value from the transaction and are recognised in the amount of revenue and cost synergies for 2019.

COMPO EXPERT's operations are reflected in the Grupa Azoty Group's consolidated financial statements and earnings presentations. In 2019, COMPO EXPERT's consolidated revenue, of PLN 1.49bn, represented 15% of the Grupa Azoty Group's consolidated revenue, while EBITDA generated in 2019 amounted to PLN 122m, delivering an EBITDA margin of 8%.

## Question 2

*Why did Grupa Azoty's share in the share capital of Police S.A. fell from 66% to 62%? Why did the Company not acquire such number of shares in the increased share capital so as to continue to hold a 66% stake in Police S.A.?*

*Does the Management Board intend to dispose of the majority stake and lose control of Police S.A.?*

## Answer:

The acquisition by Grupa Azoty S.A. of shares issued as part of a share capital increase in Grupa Azoty Zakłady Chemiczne Police S.A. (Planned Issue) was effected in accordance with Resolution No. 5 of the Company's Extraordinary General Meeting held on November 8th 2019. The resolutions passed by the Extraordinary General Meeting were published in Current Report No. 64/2019 of November 8th 2019.

The Extraordinary General Meeting, having considered the Management Board's request of October 10th 2019 concerning the grant of consent to subscription for shares in the increased share capital of Grupa Azoty Zakłady Chemiczne Police S.A. ("GA Police"), and having considered the opinion of the Company's Supervisory Board contained in Resolution No. 377/X/2019 of October 24th 2019, concerning the grant of consent to subscription for shares in the increased share capital of Grupa Azoty Zakłady Chemiczne Police S.A., granted its consent for the Company to subscribe for Planned Issue shares at the issue price determined by the GA Police Management Board, in a rights issue within the meaning of Art. 431.2.2 of the Commercial Companies Code, effected through a public offering within the meaning of Art. 3.1 of the Act on Public Offering, Conditions Governing the Introduction of Financial Instruments to Organised Trading, and Public Companies, to the extent required for Grupa Azoty S.A. to retain operational control and ownership of GA Police, with the proviso that upon registration by the court of the increase in GA Police's share capital in connection with the Planned Issue, Grupa Azoty S.A.'s equity interest in GA Police should not exceed 66%. Furthermore, the General Meeting authorised the Company's Management Board to take all formal and legal steps necessary to commence the subscription for Planned Issue shares, including to determine the final number and value of shares to be subscribed for in the Planned Issue and, possibly, to purchase or sell pre-emptive rights or GA Police shares issued in the Planned Issue, with the proviso that consent from the Company's Supervisory Board shall be required for each such transaction if its value exceeds PLN 6,000,000 (six million złoty).

In the performance of the above Resolution, the Company's Management Board requested the Company's Supervisory Board to approve the acquisition of secondary issue shares in Grupa Azoty Zakłady Chemiczne Police S.A. On November 13th 2019, the Company's Supervisory Board gave its approval for the Company's Management Board to execute transactions involving the acquisition of Planned Issue shares in GA Police with a value exceeding PLN 6,000,000.00 and the sale of pre-emptive rights to secondary issue shares in GA Police with a value exceeding PLN 6,000,000.00, with a view to enabling the Company to participate in the Planned Issue through the Company's acquisition of Planned Issue shares to the extent required for

Grupa Azoty S.A. to retain operational control and ownership of GA Police, understood as holding a stake of at least 50% of shares and one share, with the proviso that upon registration by the court of the increase in GA Police's share capital in connection with the Planned Issue, the Company's equity interest in GA Police should not exceed 66%. For details, see Current Report No. 65/2019 of November 13th 2019.

In Current Report No. 76/2019 of December 9th 2019, the Company announced that on December 9th 2019 the Company instructed an investment firm to subscribe on its behalf for 28,551,500 shares of the Planned Share Issue, at an issue price of PLN 10.20 per share, that is for an aggregate price of PLN 291,225,300.00 (two hundred and ninety-one million, two hundred and twenty-five thousand, three hundred złoty 00/100), in the exercise of pre-emptive rights held by the Company.

In Current Report No. 81/2019 of December 23rd 2019, the Company announced successful conclusion of the issue of 49,175,768 Series C ordinary bearer shares with a par value of PLN 10.00 per share, carried out by its subsidiary GA Police. The total number of New Shares subscribed for was 49,175,768, of which the Company subscribed for 28,551,500 New Shares.

As a result, Grupa Azoty's share in the share capital of GA Police reached 62.86%, ensuring full operational control and ownership of the subsidiary. The current level of the Company's equity interest in the share capital of GA Police is consistent with Grupa Azoty's long-term financial model currently in place.

With regard to the second part of the question, the Company represents that it has neither planned nor plans to take any formal or legal steps to dispose of the majority stake in GA Police and lose ownership and operational control of that company.