



Non-Financial Statement of the Grupa Azoty Group for 2017

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1. Introduction

We present to you the Non-Financial Statement for 2017 (for the period January 1st - December 31st 2017), compliant with the requirements of the amended Accounting Act of September 29th 1994, transposing Directive 2014/95/EU. Committed to excellence, for a few years the Grupa Azoty Group has been publishing integrated reports, describing its achievements, values, and goals as well as challenges that lie ahead. As a socially responsible company, we attach great importance to communication with stakeholders, which is why we strive to present a clear and transparent view of our business. We thoroughly studied the amended Accounting Act, which requires undertakings to disclose material information concerning sustainable development and corporate social responsibility. This Statement, which adheres to the Global Reporting Initiative's globally recognised sustainable development standards and which was prepared following an assessment of materiality of the information to be disclosed, presents the Grupa Azoty Group's business model and key non-financial performance indicators, potential industry-specific risks, and due diligence policies and procedures applied by Group companies in various areas.

Under the Accounting Act, the related statutory reporting requirements apply to the Group at the level of the Grupa Azoty Group (the "Group" or "Grupa Azoty Group"), Grupa Azoty S.A. Group, Grupa Azoty Zakłady Chemiczne Police S.A. Group ("Grupa Azoty POLICE Group") and Grupa Azoty Zakłady Azotowe Puławy Group ("Grupa Azoty PUŁAWY Group") as well as their respective parent companies, i.e. Grupa Azoty S.A, Grupa Azoty POLICE, and Grupa Azoty PUŁAWY. Qualitative and quantitative data is presented according to this breakdown.

We encourage you to read this Statement as well as Grupa Azoty's full integrated report, which will be released in Q2/Q3 2018 on the Group's website.

2. Business model

The Grupa Azoty Group is one of the leading players on the European fertilizer and chemical markets.

It is the second largest EU-based manufacturer of nitrogen and compound fertilizers, and its other products, including melamine, caprolactam, polyamide, oxo alcohols and titanium white, enjoy an equally strong position in the chemical sector, with a wide range of applications in various industries.

Mission:

Create value for Grupa Azoty and the national economy by delivering safe, useful and innovation-driven chemical products.

Vision:

Deploy state-of-the-art, comprehensive chemical industry solutions that meet stakeholder expectations.

Key products and services

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

- Agro Fertilizers,
- Plastics,
- Chemicals,
- Energy,
- Other Activities segment, comprising other activities, including laboratory services and property rental.

The Grupa Azoty Group manufactures nitrogen, nitrogen-sulfur, nitrogen-phosphorus and compound fertilizers, as well as ammonia and other nitrogen-based intermediate products.

The Plastics segment accounts for the second largest share in the Grupa Azoty Group's overall sales. Its product portfolio includes: Tarnamid®, Alphalon® (trade names of polyamide 6), Tarnoform® (trade name of polyacetal (POM)), and other modified plastics. The Chemicals segment comprises OXO products (OXO alcohols, plasticizers), technical grade urea, melamine, sulfur and other.

The Grupa Azoty Group's main production plants operate their own electricity and heat generating units. The Group companies also operate their own electricity and energy carrier distribution networks, which make up the Energy segment.

The Other Activities segment comprises maintenance and other services (automation, design, repairs, etc.), logistics, infrastructure management, environmental protection, and research.

Most of the Grupa Azoty Group's products are sold in Poland, with exports going mainly to EU member states, in particular Germany, the United Kingdom, the Czech Republic, Italy, France, and Belgium. Fertilizers and chemicals (urea and OXO alcohols) are the key product groups sold in the domestic market. Exports to EU countries include mainly fertilizers (such as Saletrosan® 26, ammonium sulfate As21, Salmag®, Pulan®, Rsm®, Polifoska®) and OXO alcohols, whereas exports to Asia - caprolactam and polyamides. The Grupa Azoty Group's fertilizers are also sold in South American markets.

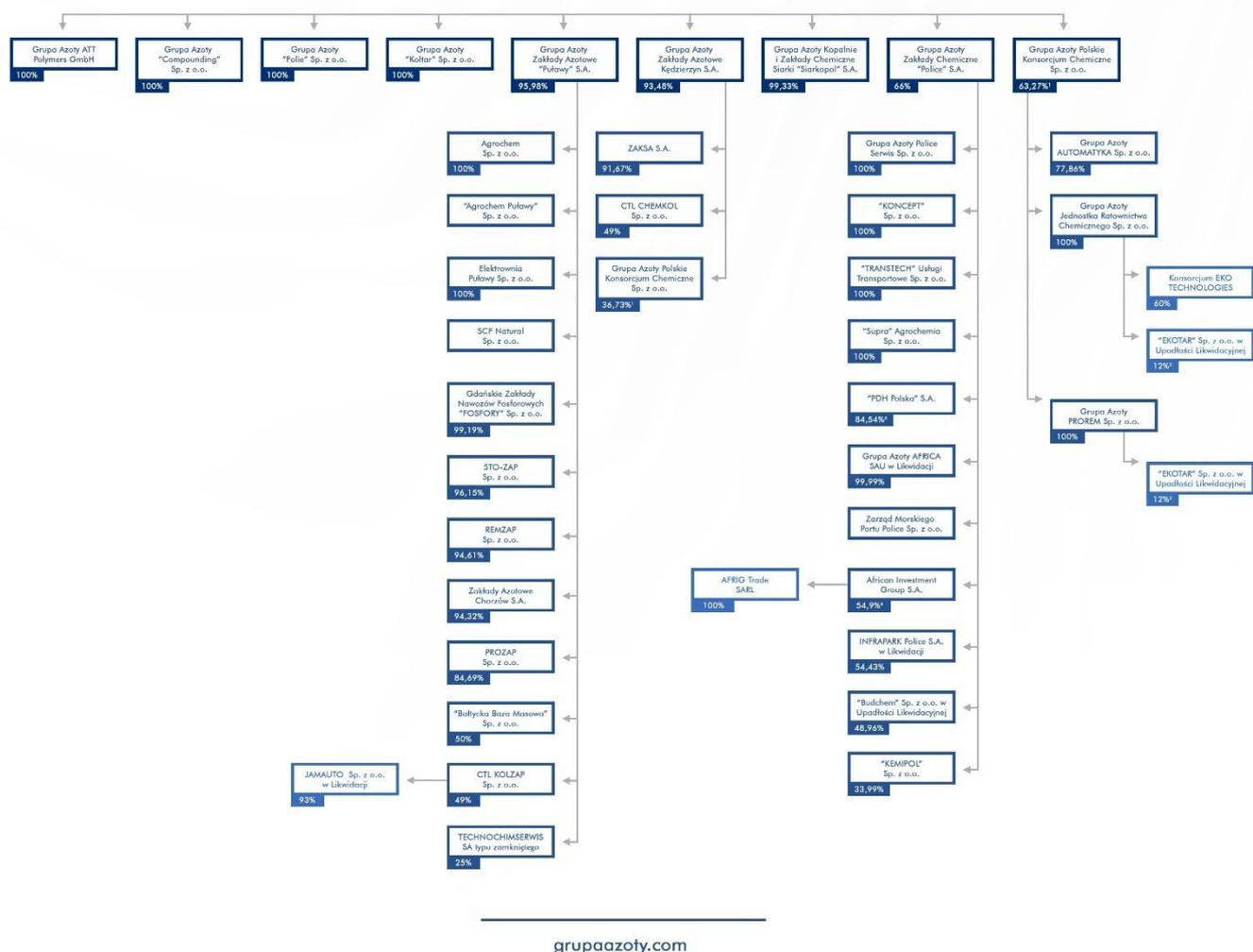
Structure of the Grupa Azoty Group

Over the past five years, Grupa Azoty successfully consolidated Poland's largest chemical plants with an aim of harnessing their combined potential to deliver a common strategy. As a result, Grupa Azoty became an umbrella organisation for companies with different traditions and complementary business profiles, together forming the largest Polish chemical group, and one of the largest industry players in Europe. The parent of the Grupa Azoty Group is Grupa Azoty S.A., whose business activities include manufacturing, trading and services 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. Grupa Azoty S.A.'s registered office is located in Tarnów.

It has been listed on the Warsaw Stock Exchange since June 30th 2008 and is included in the WIG, WIG30, mWIG 40, WIG-Poland, and WIG-CHEMIA indices, as well as the Respect Index. Its shares are also a constituent of foreign indices: MSCI Emerging Markets, FTSE Emerging Markets, and FTSE4Good Emerging Index. Grupa Zakłady Chemiczne Police S.A. has been listed on the WSE since September 2005, and Grupa Azoty Zakłady Azotowe Puławy S.A since November 2005.

As at December 31st 2017, the Grupa Azoty Group comprised Grupa Azoty S.A., the parent, and nine subsidiaries:

Grupa Azoty S.A.



Grupa Azoty S.A.'s subsidiaries:

Grupa Azoty Zakłady Azotowe Puławy Spółka Akcyjna

Grupa Azoty PUŁAWY specialises in the manufacturing of nitrogen fertilizers and is one of the largest melamine manufacturers in the world.

The Grupa Azoty PUŁAWY Group is subject to new requirements regarding the disclosure of non-financial information, mandated by the Accounting Act of September 29th 1994, and presents such non-financial information in this statement.

Grupa Azoty Zakłady Chemiczne Police Spółka Akcyjna

Grupa Azoty POLICE is a major manufacturer of compound and nitrogen fertilizers, as well as titanium white.

The Grupa Azoty PUŁAWY Group is subject to new requirements regarding the disclosure of non-financial information, mandated by the Accounting Act of September 29th 1994, and presents such non-financial information in this statement.

Grupa Azoty Zakłady Azotowe Kędzierzyn Spółka Akcyjna

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

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

Grupa Azoty PKCh provides comprehensive design services encompassing complete design support for investment projects in the chemical industry – from study and concept works to process and construction design and working plans for services during the construction, commissioning and operation of process units.

Grupa Azoty Koltar Spółka z ograniczoną odpowiedzialnością

Grupa Azoty KOLTAR provides railway transport services nationwide. 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 hazardous materials (according to RID).

Grupa Azoty Kopalnie i Zakłady Chemiczne Siarki Siarkopol Spółka Akcyjna

Grupa Azoty SIARKOPOL is Poland's largest producer of liquid sulfur.

Grupa Azoty Folie Spółka z ograniczoną odpowiedzialnością

Its principal business is research and development in technical sciences.

In 2017, the company did not carry out any operating activities or employ any personnel.

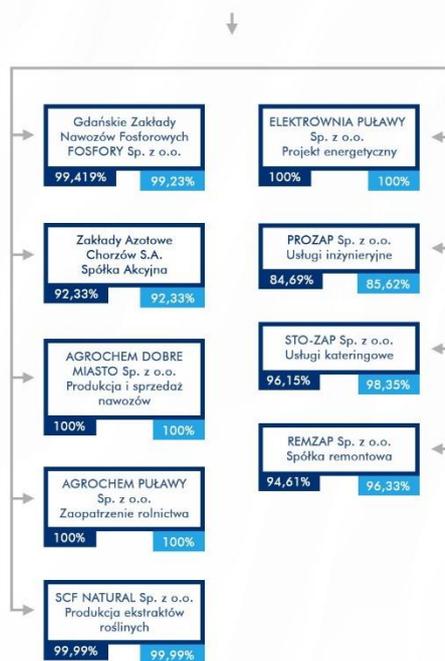
Grupa Azoty Compounding Spółka z ograniczoną odpowiedzialnością

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.

In 2017, the company did not carry out any operating activities or employ any personnel.

As at December 31st 2017, the Grupa Azoty PUŁAWY Group comprised Grupa Azoty PUŁAWY, the parent, and nine subsidiaries.

Grupa Azoty Zakłady Azotowe "Puławy" S.A.



grupaazoty.com

The Grupa Azoty PUŁAWY Group's subsidiaries:

Gdańskie Zakłady Nawozów Fosforowych Fosfory Sp. z o.o.

Gdańsk-based manufacturer of fertilizers and nitrogen compounds.

Zakłady Azotowe Chorzów S.A.

Producer of inorganic and organic chemicals. The only Polish producer of fertilizer grade, technical grade and food grade potassium nitrate, also manufacturing calcium nitrate solution and, recently, hydrogenated fatty acids, including stearin.

Agrochem Puławy Sp. z o.o.

AGROCHEM Sp. z o.o. is a trading partner of the agricultural sector, specialising in the supply of goods necessary for agricultural production, including in particular mineral fertilizers, crop protection chemicals and certified seed, as well as in the purchase of grain.

Agrochem Dobre Miasto Sp. z o.o.

Agrochem Spółka z o.o. Dobre Miasto manufactures and sells mineral NPK fertilizers, which are a mechanical blend of various other fertilizers. Agrochem Sp. z o.o.'s fertilizer blends are distributed through a Poland-wide dealer network. The company sells mineral NPK fertilizers directly to farmers in the Olsztyn Province.

SCF Natural Sp. z o.o.

SCF Natural offers high quality granulated hops and plant extracts for the food and pharmaceutical industries. Its core business activities include execution of contracts for, purchasing, and processing of hops for domestic and foreign consumers. Given its specific business profile, the company does not apply all documents or policies which are in place at the Group level.

Elektrownia PUŁAWY Sp. z o.o.

The company has been carrying out activities connected with the preparation of an investment project to construct a power generating unit. Given its specific business profile, the company does not apply all documents or policies which are in place at the Group level.

Prozap Sp. z o.o.

A comprehensive engineering design office with a proven, more than 45 years' track record in designing new and upgrading existing fertilizer and other chemical production units.

Remzap Sp. z o.o.

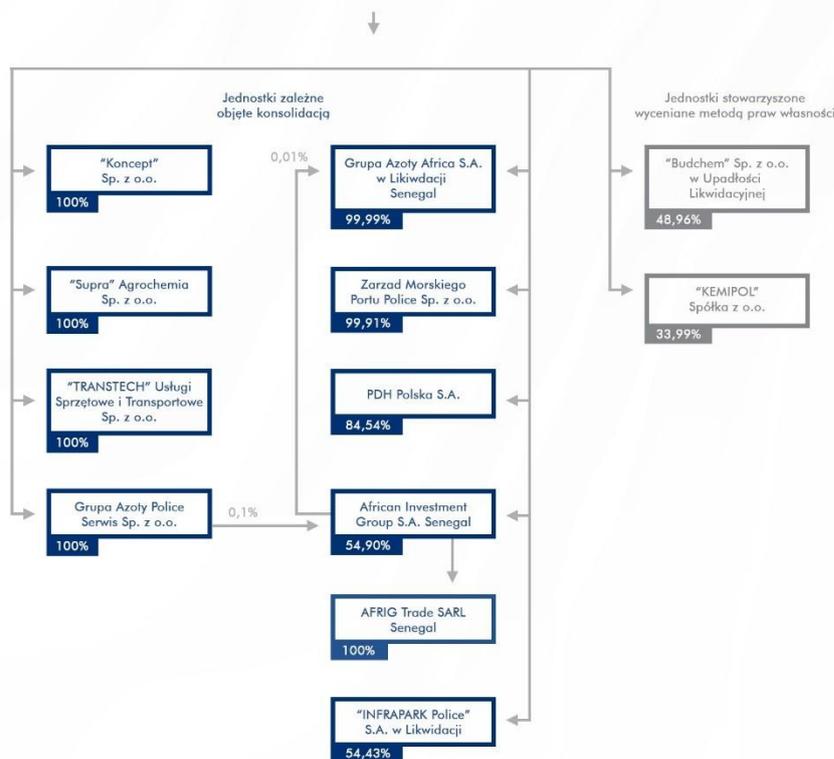
The company carries out industrial construction, investment, and renovation projects, combining many years of knowledge and experience with a systematic approach to QHSE management.

Sto Zap Sp. z o.o.

The company's business activities include catering, trading, and provision of services. It provides cleaning services to Grupa Azoty PUŁAWY and produces water and carbonated beverages, but its principal business is in catering services. Given its specific business profile, the company does not apply all documents or policies which are in place at the Group level.

As at December 31st 2017, the Grupa Azoty POLICE Group comprised Grupa Azoty S.A., the parent, and 12 subsidiaries:

Grupa Azoty Zakłady Chemiczne "Police" S.A.



grupaazoty.com

The Grupa Azoty POLICE Group's subsidiaries:

Grupa Azoty POLICE Serwis Sp. z o.o.

The company's business includes overhauls and project execution in the mechanical and construction industries (construction of systems and apparatuses, including those made of plastics, maintenance services, workshop services, treatment of metals, and technical supervision services), project execution and technical and engineering services in the areas of automation and power engineering, repairs of control and instrumentation equipment and power generation plant and equipment, plant engineering in automatics and power generation, including plant engineering in process control and visualisation systems.

Koncept Sp. z o.o.

The company's business consists in the provision of design services for the construction, assembly, mechanical, electrical, automation and measurement, and technological industries (including preparation of expenditure and investment estimates). The company specialises in design work for the chemical industry (manufacture of ammonia, urea, compound fertilizers, phosphoric and sulfuric acid, and titanium pigment), as well as printing and binding services.

Supra Agrochemia Sp. z o.o.

Its business comprises revitalising post-industrial sites owned by the company and preparing them for the purposes of redevelopment projects.

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

The company provides transport services, plant and equipment services, and workshop services (repair of battery-electric trucks, stackers, passenger cars, delivery vans, lorries, loaders, diggers, bulldozers and mobile cranes) as well as periodic inspection services.

Grupa Azoty Africa S.A. w likwidacji (in liquidation)

The company has been in liquidation since May 12th 2017.

Zarząd Morskiego Portu Police Sp. z o.o.

The company's business comprises sea port operation, port construction, property management, research work, sea and inland shipping, and coastal water transportation services. The subsidiary is a port authority within the meaning of the Act on Sea Ports and Harbours.

PDH Polska S.A.

The company's purpose is to construct a PDH propylene and polypropylene production plant with related infrastructure, auxiliary systems and inter-unit connections, and extension of the Police sea port facilities to include a handling terminal for chemicals that would provide the required logistics infrastructure for receiving and storing the raw material.

PDH Polska S.A. is majority owned by Grupa Azoty POLICE, with 15.46% of its shares held directly by Grupa Azoty S.A.

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

The company is in liquidation and is not conducting any business.

African Investment Group S.A. (AFRIG S.A.)

The company is in bankruptcy proceedings.

AFRIG Trade SARL

The subsidiary's operations are to be discontinued.

Business strategy and key financials:**Strategic growth directions**

Changes in economic conditions and in the Grupa Azoty Group's immediate environment have necessitated a revision of its previous strategic objectives to better align them to the current market landscape. In the years to 2020 the Grupa Azoty Group will pursue growth in four areas representing major challenges for Poland's top chemical producer. The challenges faced by the Grupa Azoty Group are as follows:

- Complete the Group consolidation process
Launched in 2013, the Grupa Azoty Group consolidation process offers potential further gains. In order to more effectively manage the Grupa Azoty Group, a system of management by business segments will be implemented. The Grupa Azoty Group will continue to integrate its processes and consolidate its sales/marketing, procurement, logistics, finance, IT and other functions until 2020.
- Reinforce leadership in agricultural solutions in Europe
To preserve leadership on the fertilizer markets at home and in its region, the Grupa Azoty Group will seek to increase control of retail distribution channels and look for growth opportunities and improve efficiency of its production processes.
- Strengthen the second operating pillar by expanding the 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 the non-fertilizer business lines, with petrochemicals and plastics as the key areas for growth.
- Develop and implement innovations to drive growth of the chemical industry
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 performance indicators**Performance against targets in 2017:**

The strategic growth areas are as follows:

- The operational excellence programme, with the annual effect on the Group's EBIT expected at PLN 300m;
- Organic growth, with capital expenditure estimated at 7bn over the seven years between 2014 and 2020;
- Efficiency enhancement through mergers and acquisitions (M&A).

Consolidated financial results of the Grupa Azoty Group:

	2017	2016
Revenue	9,617,495	8,966,804
Gross profit	2,159,761	1,962,321
Operating profit	597,214	427,604
Net finance costs	-36,824	-10,698
Net profit	488,826	315,243

Sustainable development strategy:

Grupa Azoty S.A. has been listed in the prestigious RESPECT index for eight years, which demonstrates its strong commitment to incorporating the principles of corporate social responsibility and sustainable development into its daily business practice.

The Group considers sustainable development to be of strategic importance. Oversight of the sustainable development management process rests with the President of the Management Board and with individual Management Board members within their respective areas of responsibility. As the pursuit of sustainable development spans all areas of the Group's activities, representatives from various departments and levels of the organisation are also involved in the process.

Grupa Azoty S.A.'s sustainable development priorities are the following:

1. **Sustainable production** - reducing the environmental impact of the Group companies, fostering partnerships with research institutions, raising environmental awareness, and continued engagement in the Responsible Care programme
2. **Dialogue and relationship building** - promoting the development of local communities, defining the forms of dialogue with each of the key stakeholder groups, maintaining effective communication, and building a culture of ethics
3. **Workplace** - improving employee satisfaction and safety, employee development initiatives
4. **Natural environment** - mitigating adverse environmental impacts
5. **Research and development** - investing in research and searching for innovative technological solutions. In line with the strategy, R&D&I spending will reach 1% of Grupa Azoty Group's revenue by 2020.
6. **Renewable resources** - increasing the share of renewable resources in production processes.

Grupa Azoty POLICE 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 principles assuming customer orientation, reduction of environmental losses, mitigation of hazards and risks, and continuous improvement. The Management Policy implemented by the company sets out plans and principles for its operations at large, providing a framework for setting and reviewing strategic goals in quality, environmental protection, workplace safety, and food safety. Sustainable development management policies will also be put in place at other Grupa Azoty POLICE Group companies.

Striving to meet the growing needs and expectations of its customers and other stakeholders, Grupa Azoty PUŁAWY implemented and obtained certification for its Integrated Quality, Environment and Safety Management System in 2004.

The system's key document is the 'Quality, Environmental and Safety Policy', defining the company's goals and ways to achieve them.

A key objective related to the implementation of the Integrated Quality, Environment and Safety Management System that is set in the Policy is to cater to the changing customer needs by ensuring compliance with the legal regulations on environmental protection, employee and contractor safety and environmental footprint reduction.

With the UN's Agenda for Sustainable Development as its touchstone, Grupa Azoty S.A. has incorporated sustainable development goals into its Strategy, which are discussed in detail in the 'Azoty Tarnów Sustainable Development Strategy for 2011-2017'.

At present, a strategy is being developed that covers the other companies of the Grupa Azoty Group, Grupa Azoty PUŁAWY Group, and the Grupa Azoty POLICE Group.

Customers

The Group offers a wide selection of products that are used for various applications by customers from across industries. The Group enjoys strong demand for its products from agriculture, and also from the automotive, construction, electrical engineering, pharmacy and cosmetics, food, textile, paper, machine, mining, and furniture industries.

3. Major risks

The Group pursues the world's most exacting standards in enterprise risk management on a daily basis. Risk management forms part of the management process and is an important ingredient in safeguarding and building the Group's value in the long term.

The Enterprise Risk Management System is based on PN-ISO 31000:2012 "Risk management principles and guidelines" and the "Enterprise Risk Management - Integrated Framework" standard developed by COSO.

The Grupa Azoty Group has adopted the "Group Enterprise Risk Management Policy", along with a range of procedures describing stages of the risk management process, detailed actions to take and responsibilities.¹

The risk management process mainly comprises risk identification and assessment; risk response implementation, risk monitoring and reporting; implementing risk-informed decision-making processes; monitoring and evaluation of the risk management system; reporting and communication.

An overview of the selected key non-financial risks with a potential impact on the implementation of strategic goals by the Grupa Azoty Group is provided below. A detailed list of financial risks is provided in the consolidated financial statements for 2017.

Risk map

Risk associated with new legal requirements relating to production processes, including environmental regulations

- Risk associated with the implementation of the Industrial Emissions Directive (IED)
 - The Group will be required to bring its production facilities to compliance with the new regulations. The Group companies will be required to undertake specific adaptation work, and bear its costs.

Prevention:

- ✓ Grupa Azoty continuously monitors all planned and implemented changes in the legal environment which could affect its operations. Investments necessary in the light of new regulations are included in the Group's investment plans.
- Risk associated with greenhouse gas emissions
 - Each year, the number of the GHG emission allowances allotted decreases by several percent. If the actual CO₂ emissions are not covered by the free allowances, Grupa Azoty may need to incur additional capital expenditure on projects designed to reduce the emissions of nitrous oxide and carbon dioxide.

Prevention:

¹ http://grupazoty.com/doc/a247581b/grupa_azoty_raport_pl.pdf

- In order to mitigate this risk, the companies have been taking steps to reduce the energy intensity of their processes and thus greenhouse gas emissions. Implementation of the adopted Energy Policy has been confirmed with a certificate of the Energy Management System's compliance with ISO 50001. When increasing production volumes or launching new installations covered by the EU ETS, the companies apply to the Ministry of the Environment for allocation of additional greenhouse gas emission allowances from the MSR on an as-needed basis.
- Risk related to BAT conclusions
 - Following the scheduled review of the regulations on the Best Available Techniques for the Manufacture of Large Volume Inorganic Chemicals: ammonia, acids & fertilizers, there is a risk of implementing stricter and broader requirements relating to the air pollution emissions standards.
 - There is a risk that new BATs will be defined for installations for which so far no BATs have been specified. The period for adapting production installations to the emission requirements specified in the BAT conclusions is four years.

Prevention:

- ✓ Analysing the effectiveness of the technologies used in the context of development trends prevailing in the competitive environment,
- ✓ Planning and implementing projects designed to bring the production installations in line with the BAT/BREF standards,
- ✓ Searching for new solutions used in the processes, in particular to improve efficiency and reduce energy intensity in the context of regulations currently in place and the current level of technology,
- ✓ Developing and extending the product range by adding new fertilizers based on components produced in the existing units.

Risk of failure to meet emission reduction requirements

- Risk of failure to meet deadlines for reduction of NO₂, SO_x and particulate matter emissions
 - The Grupa Azoty Group takes steps to ensure its compliance with the requirements of the IED Directive (on industrial emissions), which entered into force as of January 1st 2016 and defined new emission standards for fuel combustion installations. The new standards in particular apply to sulfur dioxide, NO_x and particulate matter emission limits.

Prevention:

- ✓ Grupa Azoty Kędzierzyn - new coal-fired power generating unit
- ✓ Grupa Azoty S.A. - wet flue gas desulfurisation unit
- ✓ Grupa Azoty Police - flue gas desulfurisation unit.

Risk of instability of the legal environment

- Risk of implementation/tightening of EU or local regulations which would restrict the use or application of the Group's products
 - Amendments to EU directives and regulations concerning the Group's key manufacturing and trading activities give rise to a potential risk that the use and application of the Group's products by customers in the EU countries may be adversely affected.

Prevention:

- ✓ 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 to receive advance information about upcoming changes in the legislation.
- ✓ The Group reviews the impact of new regulations on its products.
- ✓ The Group is in the process of identifying threats associated with the new draft of the New Fertilizer Regulation of the European Parliament and of the Council, which is designed to implement the principles of the Circular Economy package.
- ✓ Additionally, the Group monitors other aspects of EU regulations, such as free trade agreements (DCFTA Ukraine, TTIP). Grupa Azoty takes steps to ensure that the entire manufacturing and distribution process meets the safety requirements applicable to trading in its products.

Risk of deteriorated supply-demand balance

- In the Fertilizers segment, risks related to:
 - Increased imports of nitrogen and compound fertilizers, produced based on cheaper raw materials, to Poland and the EU, and consequently persisting oversupply and aggressive pricing policies pursued by importers struggling to maintain their shares in the fertilizers market;
 - Competition growing stronger as new products are marketed and more effective technologies applied.
- In the Plastics segment, risks related to:
 - Global oversupply of caprolactam and polyamide. Excess volumes from the Far East are shipped to Europe, as a result of which traditional export markets of EU manufacturers begin to shrink and prices decline to unsatisfactory levels.
- In the Chemicals segment, risks related to:
 - Weaker demand for titanium white from paint and varnish manufacturers, higher quality requirements in the plastics and paper industries, significant increase in the production capacities of Chinese manufacturers, and plans to classify titanium white as a carcinogen;
 - Higher supply of OXO alcohols on balanced European markets, driven by heavy inflows of cheaper alcohols, especially from the Russian market.

Prevention:

- ✓ Adapting the product mix to market needs and requirements, e.g. by beginning to offer a non-phthalic plasticizer, ensuring high purity of OXO alcohols, and identifying market niches, e.g. by improving the DEHP plasticizer for medical applications, arranging deliveries tailored to the needs of end users (flexitanks for deep-sea freight of small product volumes);
- ✓ Efforts to minimise the production costs of individual products;
- ✓ Active participation in public affairs marketing and trade associations.

Risk related to occupational health & safety

- Risk related to failure of the security system
 - The Group has reliable safety systems and preventive measures in place at all organisational and technological levels, including occupational health and safety as well as protection against industrial accidents, however there is no assurance that these will completely eliminate the risk of such accidents.

Prevention:

- ✓ Identification of hazards inherent in technological processes, storage and transport, and implementation of technical solutions and organisational measures to minimize the risk of an accident;
- ✓ Ongoing monitoring of operations of machinery and equipment and evaluation of their technical condition;
- ✓ Fitting of plants and units with safety and protection systems to minimise the risk of major accidents and environmental contamination, as well as risks to life and health;
- ✓ Continuous improvement of the employees' qualifications through training courses, etc.

Risk related to selection of personnel

- The risk related to recruiting employees without appropriate qualifications
 - An employer faces the challenge of finding the right candidate with good knowledge of the chemical industry and specialist skills. The market is not able to provide specialists who can quickly understand our organisation and processes, and employees have high pay expectations.

Prevention:

- ✓ In the implementation of the Grupa Azoty Group Strategy for 2013-2020, Grupa Azoty S.A. has implemented a Scholarship Policy across the Group, covering junior and senior high school students and university students (master's and engineer's programmes), to build lasting competitive advantages based on the employees' knowledge potential and high individual competences.

4. Due diligence policies and procedures; key performance indicators**A. Employee matters**

At the end of 2017, the Grupa Azoty Group had 14,434 employees, including 3,824 at the Grupa Azoty S.A. Group, 3,425 at the Grupa Azoty POLICE Group, and 4,828 at Grupa Azoty PUŁAWY Group. At the parent companies, the workforce numbers were as follows: 2,148 at Grupa Azoty S.A., 2,502 at Grupa Azoty POLICE, and 2,498 at Grupa Azoty PUŁAWY.

Headcount at the Grupa Azoty Group as at December 31st 2017:

	Grupa Azoty Group	Grupa Azoty S.A.	Grupa Azoty POLICE Group	Grupa Azoty POLICE	Grupa Azoty PUŁAWY Group	Grupa Azoty PUŁAWY
white collar employees	5,094	811	1,041	736	1,746	1,277
blue collar employees	9,340	1,337	2,384	1,766	3,082	2,221
Total	14,434	2,148	3,425	2,502	4,828	3,498

Each of the key companies of the Grupa Azoty Group is a significant and valued employer in each of the regions in which the Grupa Azoty Group companies operate. In 2017, 1,239 people started working for the Grupa Azoty Group, including 942 men and 297 women.

Employee turnover from January 1st 2017 to December 31st 2017

	Grupa Azoty Group		Grupa Azoty S.A.		Grupa Azoty POLICE Group		Grupa Azoty POLICE		Grupa Azoty Group PUŁAWY		Grupa Azoty PUŁAWY	
	Women	Men	Women	Men	Women	Men	Women	Men	Women	Men	Women	Men
<i>Number of hires</i>	297	942	35	119	71	40	59	221	114	307	60	124
<i>Number of terminations</i>	214	785	29	68	324	245	32	145	87	269	35	57

The basic principles of HR management and respect for human rights are defined across the Grupa Azoty Group and at the parent companies in the Collective Bargaining Agreements, which have been developed individually and implemented by each Group company. The matters regulated under the Agreements include rules of remuneration for employees, working hours, rules governing allowances and other remuneration components, as well as rules governing benefits other than remuneration for work (pension and death benefits). At Grupa Azoty S.A. and Grupa Azoty POLICE, the approach to workforce management also follows from the HR policy. Grupa Azoty S.A., Grupa Azoty PUŁAWY and most of the PUŁAWY Group companies have implemented appropriate work rules.

The Group's business requires compliance with the most exacting safety standards. Therefore, training in occupational health and safety and prevention of accidents and injuries at work is very important for the entire Group. OHS issues are globally regulated across the entire Group as part of formal agreements with trade unions. Detailed rules, internal policies and management systems regarding OHS vary across the Group companies. At Grupa Azoty S.A., the OHS matters are regulated by the Work Rules. The Company has also implemented the Occupational Health and Safety Management System compliant with the BS OHSAS 18001:2007 and PN-N-18001:2004 standards. At two Grupa Azoty PUŁAWY Group companies OHS matters are covered by the Integrated Management System, while at the other entities of the Grupa Azoty PUŁAWY Group the 'Safety Policy' has been implemented. At the Grupa Azoty POLICE Group OHS rules are included in the Collective Bargaining Agreements, while internal regulations contain more detailed

provisions. In addition, Grupa Azoty POLICE has implemented a management system compliant with the BE OHSAS 18001:2007 standard, together with the Safety Book and numerous procedures for OHS monitoring, hazard identification and occupational risk assessment, testing and measurements of work environment, etc. In accordance with the framework agreement concluded with their parent, the POLICE Group companies are not obliged to implement a management system complaint with the BE OHSAS 18001:2007 standard; certain elements of this system are implemented on the basis of generally applicable legal regulations and in accordance with internally developed procedures.

In order to increase the involvement of managers and employees in OHS matters, develop the ability to perceive hazards, improve communication, and raise awareness of the importance of health and safety at work, Grupa Azoty has also implemented the STOP™ Safety Monitoring Programme.

Workplace accidents in 2017:

	Grupa Azoty Group	Grupa Azoty S.A. Group	Grupa Azoty S.A.	Grupa Azoty POLICE Group	Grupa Azoty POLICE	Grupa Azoty PUŁAWY Group	Grupa Azoty PUŁAWY
Number of accidents	125	39	12	36	25	50	24

In 2017, the Grupa Azoty Group reported 125 accidents at work; Grupa Azoty S.A. Group - 39 accidents, Grupa Azoty POLICE Group - 36 accidents, Grupa Azoty PUŁAWY Group - 50 accidents; the parent companies reported the following numbers of accidents: Grupa Azoty S.A. - 12, Grupa Azoty POLICE - 25, and Grupa Azoty PUŁAWY - 24.

The Group has not formally introduced any diversity policy, but in its operations it 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. It is the Grupa Azoty Group's intention to apply transparent criteria in relations with its employees, depending on their experience, performance, potential, and values defined by the Group.

One of the key principles applied at every stage of cooperation with employees is the guarantee of fair and equal treatment, as defined in the 'Grupa Azoty S.A. Code of Ethical Conduct' and the Codes of Ethical Conduct adopted by Grupa Azoty PUŁAWY and Grupa Azoty POLICE Groups. The Codes lay down the principles that should be applied by all employees and managerial staff at the workplace. This applies both to the principles of day-to-day cooperation in performing professional duties and the recruitment processes conducted by the Grupa Azoty Group companies. Some of the main principles defined in the Code require that:

- All current and prospective employees are guaranteed a fair and objective assessment.
- The scope of responsibilities and expected performance for all jobs are communicated in a transparent and clear manner.
- Development and in-service training opportunities are offered to all employees.
- All decisions relating to employee promotion are made carefully and clearly justified.
- Everyone is treated with respect, regardless of their position, length of service, or experience.

B. CSR matters

We treat cooperation with our social environment and local communities as a strategic and long-term matter. SCR and sponsorship initiatives contribute to the implementation of the long-term growth strategy of the Grupa Azoty Group. The Grupa Azoty S.A. Group and its parent undertake initiatives in this area based on the 'Group Policy and

Rules of CSR and Sponsorship Activities', formulated and implemented in 2013, which defines the directions of CSR and sponsorship activities, including:

- 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 and charitable organisations, NGOs and non-profit organisations,
- SCR and sponsorship projects relating to local initiatives, often with a supraregional, or even international, media coverage,
- SCR and sponsorship projects relating to nationwide and international initiatives, going beyond the framework of local initiatives.

Objectives of the social and sponsorship activities:

- Building a positive image of the Group as a people- and environmentally-friendly business,
- 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 Group, 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, fulfil ambitions, and offering young people the best possible education, healthcare and wellbeing opportunities,
- Supporting promotional and commercial activities.

National and international social initiatives, including CSR and sponsorship projects, are coordinated by Grupa Azoty S.A. on behalf of the entire Grupa Azoty Group. At the same time, each of the Grupa Azoty Group companies implements projects and social activities of a local nature and reach. Decisions to undertake individual initiatives are made by the Management Board of a given company, based on the 'Plan of CSR and sponsorship activities' approved by the relevant Supervisory Board.

The general directions of Grupa Azoty's social activities and the principles of our cooperation with social partners are defined in the 'Azoty Tarnów Sustainable Development Strategy for 2011–2017' (described in Chapter II). One area of the strategy covers dialogue and relationship building, with the following objectives:

- Supporting the development of the local community
- Deciding on the form of dialogue with each key stakeholder group
- Building effective communication on sustainable development
- Building the ethical culture of the Grupa Azoty Group.

The principles of engaging with local communities are also incorporated into the codes of ethical conduct of Grupa Azoty S.A., Grupa Azoty PUŁAWY and Grupa Azoty POLICE, which stipulate that the companies should:

- Have an open approach and be ready to engage in dialogue with the local community;
- In contacts with representatives of local communities - respect their dignity and reputation;

- In a situation of conflict - always look for ways to protect the legitimate interests of each party;
- Be sensitive to the needs of the environment.
- Not let themselves be guided by political views.

Detailed rules governing charitable donations are laid down in the Group-wide 'Grupa Azoty Group's donation policy' and in donation rules in place at individual Group companies. The Policy and the Rules set out rules to be followed when making charitable donations. They specifically forbid all Grupa Azoty Group companies from making any payments to political parties, politicians, or political institutions. In 2017, no companies of the Grupa Azoty S.A. Group, including companies of the Grupa Azoty PUŁAWY and Grupa Azoty POLICE Groups and their parents, made any political donations.

In 2017, Grupa Azoty S.A. gave donations for initiatives related to: religious worship, preservation and promotion of national tradition, health protection and promotion, social welfare, support for the disabled, support for families, motherhood and parenthood, education, and activities fostering development of local communities.

Grupa Azoty PUŁAWY engages in projects contributing to better quality of medical care, promoting healthy lifestyles, fostering social and educational development of children and youth, as well as events designed to preserve and promote national tradition, cultivate the Polish national identity, and develop national, civic and cultural awareness. In 2017, organisations supported by Grupa Azoty PUŁAWY included:

- The Azoty Yacht Club of Puławy, which organises sailing courses and camps on lakes and the Vistula river;
- The Company's PTTK (Polish Tourist Association) Branch, organising and promoting tourist activities among the Company's employees;
- The 'Chemik' Puławy Society for the Promotion of Physical Culture;
- The Technical School Complex;
- The 'Dom Chemika' Puławy Cultural Centre;
- The Henryk Sienkiewicz Museum in Wola Okrzejska.

Through donations, Grupa Azoty POLICE actively responds to the needs voiced by the employees, associations, foundations and other organisations in the region. In 2017, organisations supported by Grupa Azoty POLICE included:

- The Szczecin Province Football Association;
- The Municipality of Szczecin;
- The County of Police, Children's Home in Police;
- West Pomeranian University of Technology in Szczecin;
- The Association of Retired Employees of Grupa Azoty Zakłady Chemiczne Police S.A.;
- The 'Wspólnota Polska' Society;
- The Szczecin Section of Polish Scouting and Guiding Association;
- The Safe Pomerania Foundation;
- The 'Ostoja' Teetotal Society;
- The 'Leń' Water Sports Association.

In 2018, we are planning to harmonise standards and policies applicable to CSR projects and relations with local community and environment, including the Group-wide donation policy.

The Group builds its socially responsible image in the region by supporting:

- both 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 and scientific programmes,
- regional environmental initiatives,
- social campaigns.

The CSR and sponsorship activities of Grupa Azoty PUŁAWY in 2017 were conducted in accordance with a plan adopted by the Company's Management Board and approved by the Supervisory Board. The Company acted in line with the adopted rules on types and forms of assistance.

As part of its sponsorship activities, Grupa Azoty POLICE signs sponsorship agreements, agreements for promotional and advertising activities, and donation agreements. Image building and product promotion are carried out through various cultural, educational, scientific, sports and other initiatives. Such activities, which are undertaken in a transparent manner and with the aim to deliver tangible promotional and image-building results, help both the sponsor and the sponsored party build value and convey a positive image.

Donation policy

The Group builds its business image by sponsoring:

- professional sports, including sports clubs,
- sports associations, national and international sports competitions, including sports leagues in team sports,
- the Polish Olympic Committee,
- individual athletes, subject to approval by respective national sports associations.

All donations are granted in line with the Group-wide donation policy as well as individuals companies' rules for granting donations.

Social and sponsorship initiatives for culture

Grupa Azoty S.A. supports a number of cultural events (such as the Grupa Azoty International Jazz Contest) and cultural institutions, including the Mościce Arts Centre, Puellae Orantes Girls' Cathedral Choir Association, Tarnów Art Exhibition Centre, Paderewski Centre in Kańska Dolna, and Tarnów Regional Museum.

Grupa Azoty PUŁAWY also engages in activities fostering the development of local communities by helping to organise cultural events and initiatives. In 2017, the Company continued its partnership with the 'Dom Chemika' Puławy Cultural Centre (the largest cultural centre in the region) and the Lublin Musical Theatre. Grupa Azoty PUŁAWY

engages in activities fostering the development of local communities by helping to organise cultural events and initiatives. 2017 saw the Company continue its partnership with the ‘Dom Chemika’ Puławy Cultural Centre (the largest cultural centre in the region) and the Lublin Polish Radio, which it supported in organising the ‘Not Only Rock’n’roll’ series of concerts. Also in 2017, the Company took patronage over the Henryk Sienkiewicz Museum in Wola Okrzejska and co-financed the purchase of a manuscript fragment of Sienkiewicz’s ‘The Deluge’.

Grupa Azoty POLICE supports local cultural institutions and numerous cultural events, including a commemorative concert on the Cursed Soldiers Remembrance Day or the Flora&Funga Pomeranica conference, which it helped organise.

CSR and sponsorship initiatives for education of children and the youth

Grupa Azoty S.A. partners with schools and universities not only as part of research programmes, but also in such areas as internships, work placement opportunities and workshops for students; it also works with several other entities, including the SIEMACHA Association, KANA Catholic Youth Education Centre, General Education School Complex No. 1 of Tarnów-Mościce, Technical School Complex, and Sports School Complex, to support the education of children and youth.

Grupa Azoty PUŁAWY continued its partnership with the Puławy Technical School Complex and the Maria Curie-Skłodowska University in Lublin (the Puławy campus). The Company also undertook CSR initiatives for the youngest citizens of the Puławy county. In partnership with the Puławy Science and Technology Park, it organised fairs promoting science among children and teenagers as part of the Young Chemist’s Day, Lublin Science Festival, and the Santa Claus Joy Zone.

In cooperation with schools and higher education institutions, Grupa Azoty POLICE has for a number of years arranged training placements and internships for students. The company’s cooperation with local communities involves supporting educational initiatives and institutions at various levels, as well as scholarship programmes. It also helps students and academics interested in various matters related to the operations of the Police-based Group.

CSR and sponsorship initiatives for sports

- In 2015, Grupa Azoty S.A. launched ‘Grupa Azoty START’, - its original comprehensive, multi-year social outreach project designed to discover young sports talent. The following initiatives have been undertaken as part of ‘Grupa Azoty START’: Basketball Development Programme, Speedway Development Programme, Handball Development Programme, and Cross-Country Skiing Development Programme.

- The Group also supports numerous other nation-wide and local sporting events. According to experts, the Grupa Azoty brand created following the consolidation has become one of the most visible brands in Polish sports, particularly in such disciplines as ski jumping, volleyball and speedway.

- Other measures taken by Grupa Azoty to advertise its products and promote its brand included working with individual athletes as well as sports clubs and associations, e.g. Piotr Żyła (ski jumping), Janusz Kołodziej (speedway), Polish Ski Federation, the Unia Tarnów speedway team, the Tarnów Handball Association, the Unia Tarnów Association Football Club, the Jedyńka Tarnów Women’s Volleyball Club, MLKS Dąbrowia Archery Club, Popular Interschool Students’ Sports Club at Junior High School No. 8 in Tarnów, and other. In 2017, the most significant financial resources were allocated to the sponsorship of professional sports.

- Grupa Azoty PUŁAWY continued its involvement with the Azoty-Puławy and Wisła Puławy sports clubs. In early 2017, Grupa Azoty Puławy entered into a partnership with Malwina Kopron, a professional hammer thrower from Puławy.

- Grupa Azoty PUŁAWY also provided support to various associations of sports fans and enthusiasts. In 2017, it sponsored the Azoty Yacht Club of Puławy, which organises sailing courses and camps on lakes and the Vistula River,

the Company's PTTK (Polish Tourist Association) Branch, which organises and promotes tourist activities among Company employees, and the 'Chemik' Puławy Society for the Promotion of Physical Culture. Grupa Azoty PUŁAWY supported young athletes, including Jakub Szymula, a talented wrestler from the Lublin region, representative of Poland.

- In 2017, Grupa Azoty POLICE continued its cooperation with MKS Pogoń Szczecin, a premier league football team, and with KPS Chemik Police, a top-ranking volleyball women's club. Furthermore, Grupa Azoty POLICE initiated partnership with the Chemik Police Football Club to become its Main Partner.
- Grupa Azoty POLICE also sponsors local amateur sports initiatives, including by providing financial assistance to: the 'WODNIK' Students' Swimming Club, 'Champion' Students' Sports Club, Szczecin Fencing Association, 'Biegam bo Lubię' Runners' Club, 'Dzik' Runners' Club, and the Police Sports and Recreation Centre.

CSR and sponsorship initiatives for regional promotion and development

- In 2014, Grupa Azoty S.A. organised the first New Year's Charity Concert. In 2017, proceeds from the concert were donated to the Prometeusz Association for the Assistance to the Disabled Children and Their Families of Zbylitowska Góra as aid for its beneficiaries.
- Grupa Azoty S.A. also supports the Tarnów Branch of the Polish Tourist Association, the Society of the Friends of Mościce, and the Tytus Chałubiński HDK PCK Club at Grupa Azoty S.A.

CSR and sponsorship initiatives to promote protection of human life and health

- Grupa Azoty S.A. supports the Centre for Children with Special Educational Needs in Zbylitowska Góra and the 'Ich Lepsze Jutro' Association.
- In 2017, the 'Grupa Azoty PUŁAWY Sports Academy' was established. It is a sports project with a social agenda, addressed to children learning to play football. It serves as a platform for cooperation with sports clubs and teams within the Company's orbit, who play under the common logo of the Sports Academy and Grupa Azoty PUŁAWY. So far, several clubs have joined the programme, In 2018, it will be expanded to include new sports clubs and associations.
- The Grupa Azoty Group engages in projects which contribute to improving the quality of medical care or promote healthy lifestyles. For instance, it offered assistance to the Children's Heart Foundation, the Safe Pomerania Foundation, and the Association of Soldiers Wounded and Injured in Foreign Missions.

SCR and sponsorship programmes for the chemical industry

Grupa Azoty joined Poland's dozen or so largest companies that founded the Polish National Foundation, whose mission is to promote and protect the image of Poland and the Polish economy, and to foster positive social reception of investment projects pursued by state-owned companies. The new organisation is to work with local communities, social and business institutions, and to undertake and finance social initiatives.

Grupa Azoty supports the Federation of Engineering Associations FSNT-NOT, the FSNT-NOT Tarnów Council, and the Tarnów Branch of the Polish Association of Chemical Engineers SITPChem.

Corporate social responsibility

The Group's CSR initiatives are related to:

- amateur sports, including:
 - financial support, mainly for schools, youth clubs and associations, and initiatives undertaken using publicly available sports facilities,
 - sponsorship of disabled athletes,
 - support for sports initiatives in the region, seeking to ensure equal opportunities for all communities across the region,
- cultural initiatives, including mass cultural events,
- science and public education of different levels,
- science and research projects furthering and promoting the history and tradition of Poland's chemical industry and supporting its development,
- environmental initiatives,
- healthcare institutions providing services to employees and their families,
- social campaigns.

Scholarship programme at Grupa Azoty S.A.

The initiative, launched in 2014, is addressed to students of the master's programme of the Faculty of Chemical Engineering and Technology of the Cracow University of Technology. It provides for two scholarships of PLN 1,000 per month each. The scholarships will be awarded until the grantees complete the master's programme and obtain a master's degree in engineering, up to the age of 26. Scholarships are awarded in accordance with the 'Group Scholarship Policy' as well as the scholarship programmes and rules approved by the management boards of individual Group companies. The competition winners receive scholarships of PLN 1,000 a month, are guaranteed employment at the Group, and are offered the opportunity to participate in joined projects conducted by scientific institutions and industrial organisations.

Collaboration with educational institutions

Grupa Azoty S.A. actively supports its local community through partnership with educational institutions. It also works with scientific and research centres on joint educational initiatives. For several years now, it has been partnering with the Cracow University of Technology, particularly in running internship programmes, assisting in bachelor's and

master's theses, student and doctoral placements and, more generally, in getting industry practitioners to educate students.

Cooperation with the State Higher Vocational School in Tarnów includes organisation of student internships, diploma internships, workshops and laboratories at the Group's business units, educational field-trips for students, and lectures given by Group experts.

Cooperation with the Technical School Complex of Tarnów includes: employment of ten school leavers each year, granting scholarships for best-performing students, sponsoring awards for olympiad, contest, and competition winners, organisation of work placements, preparation of dedicated instruction classes conducted by Grupa Azoty experts, organisation of educational field trips, organisation of teacher training in cutting-edge technologies, and co-financing purchases of teaching aids. The initiatives are implemented in partnership with the Ignacy Mościcki Foundation.

Grupa Azoty PUŁAWY continued to support the Technical School Complex of Puławy and the Maria Curie-Skłodowska University in Lublin (its branch campus in Puławy).

Competitions and programmes

Grupa Azoty S.A. has launched Idea4Azoty, an unconventional accelerator programme providing a platform for exchanging highly innovative ideas and combining crowdsourcing, networking and collaboration with startups. The accelerator programme is the first initiative of this type on the Polish market. Its beneficiaries will include not only the chemical industry, but also providers of new technologies and services in such areas as environmental protection, agriculture, engineering and biotechnology.

Grupa Azoty PUŁAWY also participated in the activities of the Secretariat of the international Responsible Care Programme. In 2017, on the initiative of chemical companies, the thirteenth 'Tree for a Bottle' campaign was held, addressed to children of the Puławy region. Once again, the nationwide 'Catch the Hare' photo competition was organised for employees and children of employees of the companies participating in the Responsible Care Programme.

Grupa Azoty POLICE implemented the 'Report a Safety Hazard' and the 'Zero Accidents' preventive programmes, engaging the entire workforce in safety improvement. As part of its health protection initiatives, the Group provided the benefit of an additional medical package to all interested employees and their families. The integrated management system in place at the company guarantees a high level of safety and favours a friendly working environment. In recognition of its achievements in improving working conditions, the Central Institute for Labour Protection awarded the company with the 'Safe Work Leader Gold Card' for 2017-2018.

C. Environmental issues

The Grupa Azoty Group's activities in the field of environmental protection are strictly regulated and subject to a number of requirements which follow from the Environmental Protection Law, the Waste Act, the Water Law and other regulations, as well as permits issued by governors and marshals of the provinces where the Group operates.

The Group's approach to environmental protection is defined by the Sustainable Development Strategy it has adopted (for an overview of the strategy, see Chapter II). One pillar of the strategy is sustainable production, with mitigation of environmental impacts, creation of sustainable products, and building environmental awareness. In accordance with the Environmental Protection Law, all companies of the Grupa Azoty Group are required to adapt their permits to the requirements laid down in applicable regulations.

Environmental protection rules that apply to the Grupa Azoty PUŁAWY Group are also provided for in the integrated permit for the operation of process units of December 31st 2004, issued by the Governor of the Province of Lublin

and subsequently extended in 2016 under a decision by the Marshal of the Province of Lublin. Grupa Azoty POLICE operates based on an integrated permit for the operation of process units granted by the Marshal of the Province of Szczecin on January 9th 2014. In addition, by way of a decision issued by the Marshall of the Province of Szczecin on September 21st 2016, another amendment was made to the Company's integrated permit.

At the Grupa Azoty Group, the parent Grupa Azoty S.A., Grupa Azoty PKCh SP. Z O.O. and Grupa Azoty JRCh sp. z o.o. have developed and implemented the Grupa Azoty Group Enterprise Management Policy and the Integrated Management System Policy, under which the companies define their own general and specific objectives (in accordance with the 'Objective setting and task planning' and 'Identification, assessment and monitoring of environmental aspects' procedures, as well as other procedures implemented individually by the companies) in the area of QHSE management. Such objectives are defined to match the needs that follow from the implemented ISO standards. In addition to the objectives, the companies develop and define their individual short-term and long-term programmes along with the related metrics and responsibilities for their implementation. Similar policies have also been implemented by the Grupa Azoty PUŁAWY Group companies, including the parent Grupa Azoty PUŁAWY, Prozap Sp. z o.o. and Remzap Sp. z o.o., and the Grupa Azoty POLICE Group companies, including the parent Grupa Azoty POLICE and Police Serwis sp. z o.o. The Grupa Azoty Group seeks to integrate its environmental protection management systems.

An Environmental Management System consistent with the ISO 14001 standard, which supports the activities related to environmental protection and prevention of contamination, has been implemented at all companies of the Grupa Azoty Group, excluding Grupa Azoty KOLTAR Sp. z o.o., and at Grupa Azoty PUŁAWY and Grupa Azoty POLICE. The system also requires the companies to assess the compliance of any activities they undertake with applicable laws and other standards, and to pursue continuous improvement in environmental protection management.

In order to improve the energy efficiency at the Grupa Azoty PUŁAWY Group, an Energy Management System compliant with the requirements of the ISO 50001: 2011 standard has been implemented. In accordance with the adopted Energy Policy, Grupa Azoty PUŁAWY has established and implemented energy objectives and programmes and pledged to comply with all the legal requirements and other commitments it has made in the area of generation and rational consumption of energy necessary in its production processes, recognising energy consumption as an important factor having an impact on the natural environment and costs of business operations.

In 2017, Grupa Azoty PUŁAWY was the only member of the Grupa Azoty Group to have been penalised for non-compliance with environmental laws and regulations connected with exceeding the standards of sulfur dioxide emissions from the on-site CHP plant following a stoppage of the flue gas desulfurisation unit for necessary repairs. In consequence, by virtue of a decision of March 30th 2017, Grupa Azoty PUŁAWY was charged a fine of PLN 227 thousand.

In 2017, the Grupa Azoty Group invested PLN 198.7m in process and technology solutions increasing environmental efficiency.

Five key companies of the Grupa Azoty Group	Capex on environmental projects in 2017 [PLN thousand]
Grupa Azoty S.A.	10,349
Grupa Azoty KĘDZIERZYN	70,065
Grupa Azoty POLICE	65,250
Grupa Azoty PUŁAWY	52,500
Grupa Azoty SIARKOPOL	550
Total for the largest Group companies	PLN 198.7m

At the same time, a number of projects were implemented that strongly supported the Group's pro-environmental approach, but their added value followed mainly from efficiency enhancement or innovation. For this reason, they are not included in the above amount.

At the Grupa Azoty Group's parent, the key environmental projects completed in 2017 included construction of flue gas NOx removal and desulfurisation units.

The flue gas desulfurisation and NOx removal projects were undertaken to ensure compliance of the Company's industrial combustion sources to the requirements laid down in the Minister of Environment's Regulation on Emission Standards for Installations of April 22nd 2011 and the Industrial Emissions Directive. As a result, the amount of pollutants released into the environment by the combustion sources will be reduced, improving air quality. Construction of the flue gas desulfurisation and NOx removal units was co-financed under the Norwegian Financial Mechanism 2009-2014.

In 2017, the Group's parent embarked on a new project - 'Collection of slag from the ECII CHP plant boilers'. The project will enable the use of slag to produce building materials, helping reduce the amount of stored furnace waste.

In addition, a number of projects aimed at reducing the consumption of energy carriers in production processes and more efficient use of available resources were pursued. The important projects in this area included 'Heat recovery from the Beckmann rearrangement process - Phase 2' and 'Reduction of steam consumption in the caprolactam production process.'

The key environmental protection projects carried out in 2017 at Grupa Azoty PUŁAWY included:

- Wastewater collection and recirculation at Urea I unit,
- Upgrade of Boiler No. 2,

- Replacement of the TG-2 turbine generator set at the CHP plant,
- Upgrade of the existing and construction of new nitric acid units,
- Construction of the water demineralisation station.

In order to reduce emissions from its units that generate high pollutant emissions, the Grupa Azoty POLICE Group performed high-cost overhaul and upgrade work on gas treatment units (replacement of filter cloths, repairs of absorbers and scrubbers, upgrades of dust filters).

At the Grupa Azoty SIARKOPOL Group, the most important projects conducted in 2017 in the area of environmental protection included the construction of a sanitary wastewater treatment plant at the Dobrów Chemical Production Plant. Modern sanitary wastewater treatment plants were installed at individual units of the Plant, ensuring proper quality of the industrial wastewater discharged from the Plant.

The Grupa Azoty 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 are 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 Grupa Azoty Group 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, Grupa Azoty S.A. 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 dust emissions;
- The titanium dioxide production unit (decomposition and calcination node) – for SO_x, sulfuric acid mists, and dust emissions.

The company monitors the volumes of emissions of gaseous pollutants and particulate matter in accordance with the requirements defined in the integrated permit. In order to reduce emissions from the units that generate high pollutant emissions, high-cost overhaul and upgrade work on gas treatment units is performed (replacement of filter cloths, repairs of absorbers and scrubbers, upgrades of dust filters). The company 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.

Pollutant emissions are monitored on a 24/7 basis at three stations whose location allows the company to assess the impact of pollutants generated during everyday operation of its units.

In the case of Grupa Azoty PUŁAWY, an analysis of the data from the continuous emissions monitoring system at the on-site CHP plant showed instances of exceeding the sulfur dioxide emission standards in 2016. These excess emission volumes were recorded after the desulfurisation unit was switched off for necessary repairs.

In consequence, by virtue of a decision of March 30th 2017, Grupa Azoty PUŁAWY was charged a fine of PLN 227 thousand. No other excess emissions were identified. In 2017, no administrative proceedings related to environmental protection were conducted against Grupa Azoty PUŁAWY.

D. Ethical issues (counteracting corruption and bribery, respect for human rights)

At the Grupa Azoty Group, the principles, desirable attitudes and conduct relating to ethics and respect for human rights are defined in the 'Grupa Azoty Group's Code of Ethical Conduct.' The Code describes the measures to be taken by the Group to foster responsible employee behaviour and build relations with its environment. The Code defines the values applicable to all Grupa Azoty S.A. Group companies, namely:

- Economy - understood as responsible management of the Group's tangible and intangible assets based on a cost-benefit analysis so as to maximise benefits to the Group's shareholders and other stakeholders.
- Professionalism - making every effort to ensure that its management, operational and control system standards are effective and conducive to the achievement of its business strategy. To be professional is to apply the highest standards of care and make proper use of expertise, skills and business competence.
- Cooperation - Grupa Azoty Group believes that good cooperation means arranging mutual relations in a way that maximises benefits to the Group while respecting the interests of the other party. This requires communication aimed at achieving a win-win situation, based on implementing common goals in an atmosphere of trust and understanding.
- Respect - respect is understood as full recognition of another person's dignity, irrespective of their nationality, race, gender, age, physical ability, religion, political views or sexual orientation.
- Transparency - transparency means openly communicating our decisions and the reasons behind them, as well as our expectations and requirements. We practice transparency in all aspects of our activity except for those which must remain confidential for business or legal reasons.

The Code applies to all employees of the Grupa Azoty Group (with the exception of Automatyka Sp. z o.o., where the matters in question are covered by the Collective Bargaining Agreement), and is also addressed to the Group's customers, business partners, shareholders and other stakeholders. At the Grupa Azoty PUŁAWY and Grupa Azoty POLICE Groups, matters related to business ethics and human rights are covered respectively by the Code of Ethical Conduct of Grupa Azoty Zakłady Azotowe Puławy S.A., adopted by Grupa Azoty PUŁAWY, and the Code of Ethical Conduct of Grupa Azoty Zakłady Chemiczne Police S.A., adopted by Grupa Azoty POLICE and KONCEPT Sp. z o.o.

At other companies of the Grupa Azoty PUŁAWY and Grupa Azoty POLICE Groups, these matters are governed by the Collective Bargaining Agreements and Work Rules. The Code of Ethics of Grupa Azoty PUŁAWY and Grupa Azoty POLICE consists of two chapters. Chapter 1 sets out the core values and principles of business ethics in relations with stakeholders, suppliers and the local community. Chapter 2 covers employee matters, such as equal opportunities in employment, promotion, development and in-service training. The Code also defines the procedure for reporting unethical behaviour through an immediate supervisor or the Ethics Officer. Furthermore, Zakłady Azotowe Chorzów S.A. has implemented a procedure for counteracting mobbing and discrimination, and approval of the policy on preventing workplace mobbing by the Management Board of PDH Polska is currently under way.

In 2017, none of the Grupa Azoty Group, Grupa Azoty S.A. Group, Grupa Azoty PUŁAWY Group, Grupa Azoty POLICE Group, or any of their respective parent companies, reported any breaches of the code of ethics or human rights, or any cases of discrimination at the workplace.

The Grupa Azoty S.A. Group (with the exception of Grupa Azoty PKCh Sp. o.o. and Automatyka Sp. z o.o.) and Grupa Azoty S.A. have implemented the Grupa Azoty Group's Compliance Management Rules, which form the policy framework for preventing corruption and bribery. At Grupa Azoty PKCh and Automatyka, this area is governed by the rules set out in the Code of Ethics.

All matters related to the management of conflicts of interest and risk of corruption at the Grupa Azoty PUŁAWY Group, Grupa Azoty POLICE Group and their respective parent companies are also governed by the above-mentioned Code of Ethical Conduct of Grupa Azoty Zakłady Azotowe Puławy S.A. and Code of Ethical Conduct of Grupa Azoty Zakłady Chemiczne Police S.A. The Codes lay down the principal standards of behaviour to be followed in everyday work. According to their provisions, all employees are required:

- Avoid situations which may give rise to a conflict of interest or put them in a conflict of interest situation;
- Carefully analyse any situations for their potential impact on the impartiality of work-related actions or decisions;
- Promptly notify their immediate supervisors and the Ethics Officer of any situations which give rise or may lead to a conflict of interest.

In 2017, there were no pending lawsuits regarding breaches of fair competition rules against the Grupa Azoty Group, Grupa Azoty PUŁAWY Group, Grupa Azoty POLICE Group or any of their respective parent companies. There were also no cases of corruption and fraud.

E. Product quality, production, storage and transport safety, and safety related to the impact of chemical substances and mixtures on humans

Ensuring product safety and quality throughout a product life cycle is our main priority and one of the adopted strategic goals. We strive to minimise the risk inherent in our operations, related to, inter alia, the use of potentially hazardous chemicals, environmental footprint and impact on the local community, by applying the highest global standards and stringent regulations implemented across the entire Grupa Azoty Group. The legal framework for our production and investment activities, as well as the reclamation of contaminated land and the provision of appropriate conditions for production, storage and transport of our products, is set out in the following laws:

- The Environmental Protection Law,
- The Water Law,
- The Waste Act, and
- Other regulations applying to environmental protection, occupational health and safety and fire protection.

One of the basic principles underlying the operations of the Grupa Azoty Group is responsibility for all activities related to the manufacture of products across the entire supply chain. Therefore, as part of its membership in Fertilizers Europe, Grupa Azoty runs the Product Stewardship programme, based on international regulations and quality standards. Under the programme, all companies of the Grupa Azoty Group are obliged to ensure that their fertilizer products, as well as all raw materials and intermediates used in their production, are processed, transported, stored, distributed and used in a responsible manner causing no harm to human health and safety or to the natural environment. In 2017, 100% of key product categories across the Grupa Azoty Group were assessed for their potential impact on consumer health and safety and on the natural environment.

The products and materials produced by the Grupa Azoty Group are sold, inter alia, to food producers and farmers. Ensuring their highest quality and safety is therefore of utmost importance as it has a direct impact on the safety and health of people - the consumers of food products made of crops grown by Grupa Azoty's customers. Bearing in mind the need to ensure food security, Grupa Azoty has adopted and achieved the following objectives:

1. To offer fertilizers supporting efficient and environmentally-friendly crop production to make agriculture profitable and guarantee the supply of affordable food;
2. To contribute to the security of food supply, thereby reducing poverty and supporting human development;
3. To prevent degradation of soil and restore it to original condition with a view to achieving wider environmental goals, such as prevention of desertification;
4. To eliminate (wherever possible) or mitigate the negative environmental impacts of our fertilizers and agricultural production.

The key document in that area is the Grupa Azoty Group's Food Safety Policy adopted across the entire Grupa Azoty Group, including subordinate groups and parent companies. The Policy is implemented through:

- ✓ ongoing monitoring of the parameters affecting the quality and safety of products
- ✓ compliance with high standards of hygiene at the stage of production, storage and distribution
- ✓ consistent upgrades and improvement of production infrastructure and technology
- ✓ improving health and safety awareness among the staff
- ✓ managing internal and external communication so as to exchange information about hazards to product safety in the food chain.

In 2017, no penalties were imposed on any of the Grupa Azoty Group companies for non-compliance with the laws and regulations regarding the supply and use of products at any stage of their life cycle.

In 2017, there was one case of product recall from the market at the Grupa Azoty PUŁAWY Group (more specifically, at Agrochem), which involved one batch of seed which did not meet quality standards and was recalled and disposed of after tests. In the remaining companies of the Grupa Azoty Group, no such cases were reported.

In the European Union, pursuant to Regulation (EC) No 1907/2006 of the European Parliament and of the Council concerning the Registration, Evaluation, Authorisation and Restriction of Chemicals (REACH), there is an obligation to register manufactured or imported chemical substances and conduct the chemical safety assessment in terms of the risks they pose to human health and the environment. The regulation requires manufacturers and importers to communicate information down the supply chain to downstream users regarding the safe use of substances on their own or in mixtures (as part of other products) by means of a mandatory document form (material safety data sheet). All Grupa Azoty Group companies complied with the duty to register all manufactured substances, and prepared and published appropriate material safety data sheets (or equivalent documents) in accordance with the REACH Regulation for all products placed on the market. In 2017, those documents were updated on an ongoing basis, and we continued the process of consolidation of all REACH measures and closer cooperation across the Grupa Azoty Group.

The Grupa Azoty Group also pays particular attention to ensuring the safe transport of manufactured intermediates and products. In transporting particularly dangerous goods, we apply the European Agreement concerning the International Carriage of Dangerous Goods by Road (ADR, L'Accord européen relatif au transport international des marchandises Dangereuses par Route). With the safety of local communities and the environment in mind, the Grupa Azoty Group companies provides support for other entities and business partners in the event of accidents in transport of hazardous materials. Grupa Azoty S.A., the POLICE Group and the PUŁAWY Group are part of the SPOT System of Assistance in Transport of Hazardous Materials, which was established to improve the safety of hazardous materials transport in Poland, and in case of any incidents - to facilitate effective elimination of accident consequences by joint efforts and measures of the national rescue and fire services and the SPOT members.

All companies of the Grupa Azoty Group have the necessary monitoring systems, safeguards and procedures in place to prevent accidents and to contain their consequences, and report their safety issues on a regular basis. The main

procedures implemented across the Grupa Azoty Group include preventive plans, production process controls, particularly hazardous work procedures, emergency/accident response, monitoring of health and safety at work, operational controls, assessment of compliance of the adopted safety objectives with applicable standards, and storage procedures. The procedures implemented by the Grupa Azoty Group are also related to product labelling, transport vehicles and packaging, in accordance with the REACH Regulation and Regulation (EC) No. 1272/2008 on classification, labelling and packaging of substances and mixtures (CLP).

In 2017, the Grupa Azoty Group reported no cases of non-compliance with the applicable regulations and voluntary codes concerning product information and labelling.

The systems implemented by the Grupa Azoty Group companies include, inter alia:

- Industrial Accident Prevention Programme and High Risk Establishment Notification;
- Management System compliant with the PN-EN ISO/IEC 17025:2005 standard (general requirements for the competence of testing and calibration laboratories);
- Automotive Industry Quality Management Standard implemented in accordance with the ISO/TS 16949:2009 standard;
- Management Standard compliant with the Fertilizers Europe Product Stewardship Standard.

In order to comply with highest product safety standards and requirements, a system compliant with the requirements of the Codex Alimentarius standard, ISO 22000 and the applicable legal provisions is implemented and maintained in all Group companies whose products are sold to the food industry.

In addition, the FSSC (Food Safety System Certification) system was implemented at Grupa Azoty PUŁAWY in September 2014.

In 2017, the Grupa Azoty Group companies improved, maintained and sought to integrate the elements of Group-wide management systems. The integration process across the Grupa Azoty Group is carried out by a dedicated team, which is responsible for monitoring all amendments to standards and for initiating necessary adaptation measures for the certification of management systems according to the requirements of ISO 9001:2015 and ISO 14001:2015.

The relevance of adopted safety measures is also assessed by external inspection authorities and accreditation/certification bodies. Audit recommendations are implemented within prescribed time-limits, and the certificates obtained by the Company confirm our due care and concern for safety.

Non-Financial Statement of the Grupa Azoty Group for the 12 months ended December 31st 2017

Signatures of members of the Management Board

.....
Wojciech Wardacki, PhD
President of the Management Board

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

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

.....
Grzegorz Kądziałowski, PhD
Vice President of the Management Board

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

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

Tarnów, April 18th 2018