



2017

NITROGÉN MŰVEK ZRT.
ANNUAL REPORT



■ Message from the Chairman-CEO



The major investments over recent years and the efforts of the simultaneously developed innovative sales strategy were aimed at bringing our products to the forefront of the market in terms of both quantity and quality. Having gauged the specific needs of our partners we elaborated our portfolio of services: our permanent establishments purchased in 2016 at various locations all over the country contribute to an efficient product allocation, while the Genezis truck fleet is instrumental in delivering orders to our customers fast. We are a unique fertiliser manufacturer in the world in terms of having our own sales team to sell our products, a further indisputable advantage we have is the expertise of the excellent professionals in the Genezis partner network, who have all the information they need on end-users. We established crop and seed divisions in 2014 and our crop protection chemical commercial division was launched in 2015, as pillars of an integrated sales organisation unique in the Hungarian agricultural sector; they demonstrate their efficiency by increasing their sales revenue and market share year-on-year. This integrated organisation is rounded off with the launch of our horticulture division in 2018.

Dear partner,

In Hungary, the ratio of arable land is high in comparison to the European average, nevertheless, the amount of nitrogen fertilisers used is still significantly lower than in Western Europe. According to forecasts by international analysts, the use of nitrogen as an active ingredient in Central and Eastern European agriculture will increasingly approach the level in Western Europe in the years to come.

In line with these expectations and keeping sustainable development in mind, our objective is to support farmers in implementing the most efficient use of fertilisers in Hungary and on neighbouring export markets affected. To this end, fine-tuned education-driven methods guide us in our activities: we provide to end-users detailed professional articles and lectures to support the increase of average crop levels, and professional advice tailored to the plots of land and needs of farmers.

Our Company places special emphasis on communicating directly with farmers, also within the framework of organised events: in 2017 we organised our third large-scale series of events to start the year, while we also represented our company at many professional fairs and on-site demonstrations.

Due to the surplus product quantities resulting from modern technologies implemented as a result of investments, Nitrogénművek Zrt. has become able to fully meet the demands on the domestic market for fertilisers whilst also realising significant export volumes on neighbouring and more remote export markets. The excellent product quality stemming from the investments and the more favourable manufacturing costs also contribute to a further increase in our competitiveness.

We are proud of having become one of the most state-of-the-art fertiliser manufacturers in Europe due to the manufacturing and sales investments we have made in recent years, resulting in both an improved manufacturing and a better sales strategy.

*Sincerely yours,
László Bige
Chairman-CEO*



■ Board of Directors of Nitrogénművek Zrt.



ESZTER FÁBRY
Chief Finance Officer

ZOLTÁN BIGE
General Manager

LÁSZLÓ BIGE
Chairman-CEO

ZALÁN BIGE
Board member

JÁNOS SZILÁGYI
Chief Executive Officer

■ Supervisory Board of Nitrogénművek Zrt.



GÉZA TÓSOKI
,employees' representative,
member of the Board

RÓBERT SZUROVCSÁK
chairman of the Board

ZOLTÁN GYENES
member of the Board



■ Introduction of Nitrogénművek Zrt. and consolidated companies

Nitrogénművek Zrt. based in Pétfűrdő and established in 1931 is currently the only Hungarian nitrogen-fertiliser manufacturing company, which also has ammonia and fertiliser manufacturing capacities.

The main activity of our Company and its subsidiaries is the production and sale of solid and liquid fertilisers and foliage fertilisers with one or more components and containing macro, micro and mezo elements, production and sale of polyethylene bags needed for packaging, as well as the distribution of the NPK products of Bige Holding Kft. in Szolnok, part of the parent company's holding network.

In addition to producing the entire spectrum of fertilisers, our group's activities include the manufacturing of other chemical products, industrial services, and the production of polyethylene wrapping required to package the fertilisers.

Our production takes place at one permanent establishment, in Pétfűrdő. The Company's full spectrum of nitrogen fertilisers is produced here, where the Company produces the most important base materials required for the production of fertilisers, i.e. ammonium and nitric acid, itself. Our commercial divisions of seeds, crops and crop protection chemicals, which bring in higher sales revenues every year, operate from our place of business in Budapest.

Our primary aim is to meet the demands of domestic agricultural end-users in a comprehensive manner to a high standard, which is ensured by several decades of professional experience, the excellent professional staff of the Company, our wide-ranging business relationships and the outstanding quality of products.

We have business sites around the country, in Barcs, Hőgyész, Kiskorpád, Nagyatád, Nagydorog and Nagykamarás, to ensure adequate storage conditions for the fertilisers produced, and to allow the storing and drying of crops purchased by the crop trading division from its end-user partners near its premises, thus expanding the range of services available to agricultural producers.

Our main task is to offer partner farmers the right type of fertiliser, seed and crop protection chemical for their land, bearing sustainable development in mind. Through sales supplemented with consultancy services we contribute to cost efficient management.

Péti Nitrokomplex Kft. and Péti Polietilén Zsák Kft. perform their production activity at the Pétfűrdő plant site.

The core activity of Péti Nitrokomplex Kft. is the manufacturing and distribution of products containing special micro and macro elements, as well as the sale of small pre-packaged bags of the parent company's fertiliser products. In addition, it also performs other chemical industry services, such as contract manufacturing and contract packaging.

Péti Polietilén Zsák Kft. manufactures and distributes polyethylene packaging, bags and wrapping. Its production capacity primarily satisfies the needs of the parent company for bags and wrapping material, with any additional free capacity used to meet external market demands.

Other consolidated companies such as Nitro Pet d.o.o. Serbia, NITROPÉT Slovakia s.r.o., BH Chemical Impex s.r.l. Romania and Nitropet d.o.o. Croatia focus exclusively on the distribution of Genezis products in neighbouring countries.



Production

In 2017 our Company produced the highest volume of fertiliser in its history. The production of the more than 1,243,000 tonnes of fertiliser was largely facilitated by the fact that the production outage in the Ammonia plant was the shortest over the past five years. The excellent production was clearly assisted by putting the new Nitric acid plant and the new Neutralisation plant into operation, as well as by the completion of the renovation and capacity upgrade project, which started in the spring of 2016 in the Pétisó plant. As a result of investments, Nitrogénművek Zrt. has not only managed to expand its product capacities, but it has gained considerable advantages in terms of product quality, cost management and market opportunities, all of which contribute to increasing competitiveness.

The daily production of the Ammonia plant was continuously adjusted to meet the needs of the fertiliser plants. Except for the brief shutdown in May, there was no technical obstacle to continuous operation at maximum capacity, nevertheless, due to production outages in user plants it operated at a lower capacity for a short period of time.

The Company's capacity to produce nitric acid grew by 1150 t/day in 2017. The new plant was put into operation in June in compliance with the date stipulated in the contract. The nitric acid supply of fertiliser plants was uninterrupted during the year because the two plants were flexible in adjusting to users' demands.

No scheduled shutdowns took place during the ten-month operation of the Urea plant, although a relatively small number of failures happened that resulted in a production outage. Towards the end of the installation period the plant was able to operate at a reduced compressor capacity of only 70-80%.

The reconstruction works in the Pétisó plant were completed by the end of September. The start to operations in the plant went relatively smoothly. In the beginning only ammonium nitrate was produced, and then the plant switched to producing

Pétisó, which was adjusted to commercial demands in the last few months of the year.

The granulation plants operated to plan throughout the whole year, as a result of regular maintenance there was a relatively low number of outages.

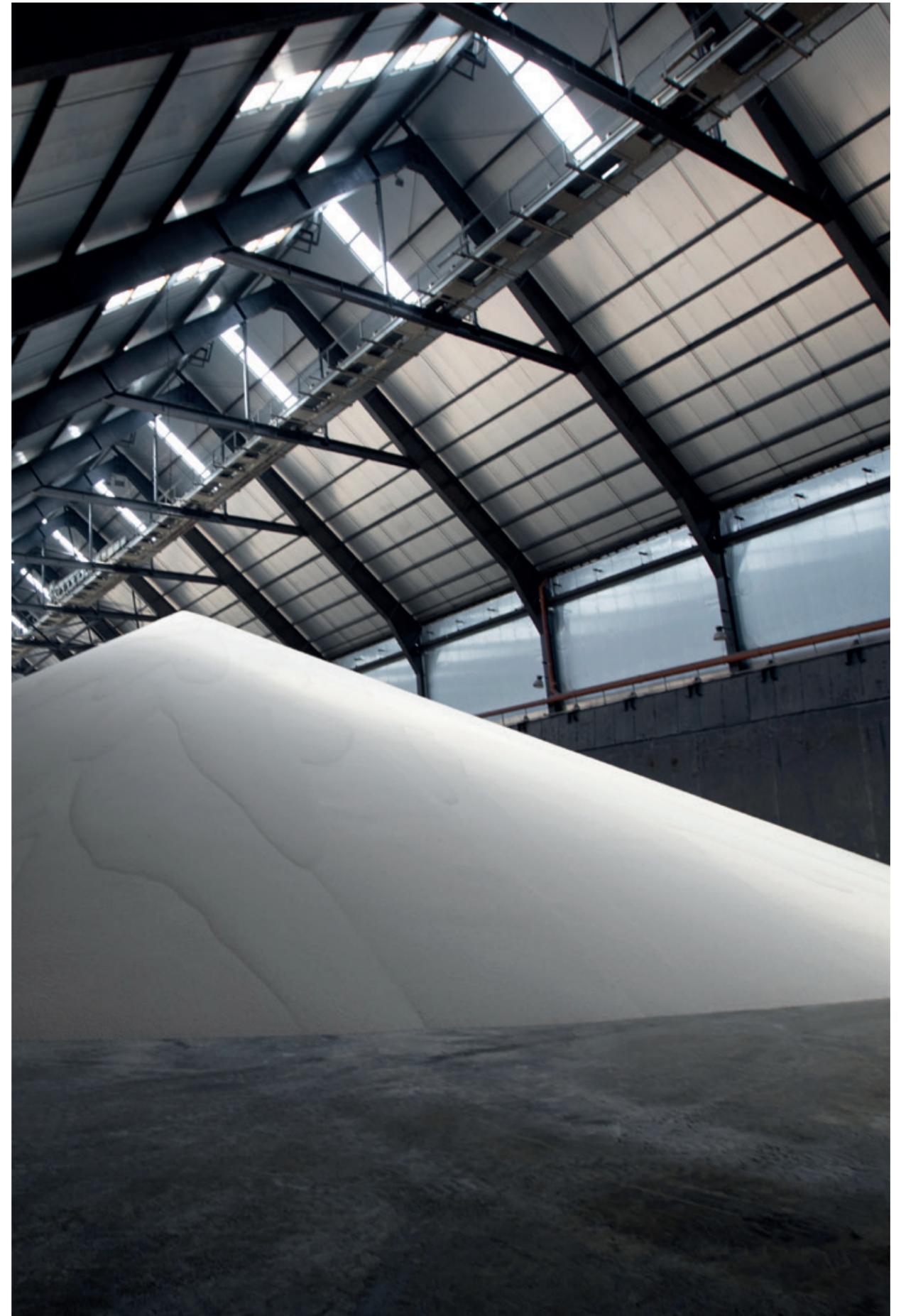
In January the Granulation1 plant produced 400 tonnes of Pétisó with a low nitrogen content of 16%. Production was successful, though the quality parameters need to be fine-tuned in the technology for continuous production.

In August the Neutralisation 3 plant investment was completed; the plant supplies the Granulation2 plant with liquid ammonium nitrate and it has been in operation continuously since the successful warranty measurement in early September.

In 2017 the granulation plant of Péti Nitrokomplex Kft. operated for a period of 589 hours on a continuous basis, which is a significant operating time in comparison with previous years. During this time a total of 4,440 kg of solid, granulated Mikromix Grape, Fruit and Savastrene products were manufactured. The reactors producing liquid fertilisers, and the liquid and solid packaging lines operated at a capacity appropriate for the season, without any major technical failures. The 70 to 80,000 weekly litre production capacity of the reactors satisfied all customer needs.

In 2017 the bag-welding machinery and the scales were continuously repaired and maintained.

Production at Péti Polietilén Zsák Kft. was continuous in 2017. The printing house was shut down in July for a week during which the annual maintenance was carried out. In the quality control of semi-finished and finished products the testing of several accurate, dynamic and static quality assessments was launched at the end of the year, which made it possible to reduce waste resulting from manufacturing faults. Péti Polietilén Zsák Kft. is able to re-use waste from production, which, if adequately selected, makes it possible to meet the demands of several target groups.



Environmental Protection



As corporations in the chemical industry our companies are committed to using their environment in a rational and considerate manner with a view to laying the foundations for their future development. For this reason they pay close attention to ensuring that operations comply with environmental laws and regulations and to mitigating the harmful ecological impacts of their technologies.

Reporting, recording and disposal of hazardous waste generated is ensured by the members of the Group in compliance with regulations.

Nitrogénművek Zrt. recycles the majority of the production waste created during the operations of the fertiliser factory in Pétfürdő into manufacturing technologies, while it gives waste paper, waste plastics and office wastes to a recycling company. Communal and inert waste is taken away and disposed of by licensed organisations.

Packaging waste produced at Péti Nitrokomplex Kft. – polyethylene bags, plastic bottles, containers, contaminated boxes – are utilised based on a contract concluded with an organisation possessing necessary authorisations. Péti Polietilén Zsák Kft. reprocesses the polyethylene waste it produced when making bags: it produces lower-quality products by grinding and re-granulating the waste.

Packaging waste generated by BH Chemical Impex s.r.l is collected and disposed of by a specialised firm based on a contract.

No hazardous waste was produced at the other companies and there were no harmful emissions.





2017 SALES ACTIVITY

2017 Sales Activity

In addition to its main profile – the production and trade of fertilisers – our Company has operated its seed, crop protection chemical and crop trading division for three years now. We intend to develop our trading activity with the help of input sectoral sales into an integrated value chain, in which with our wide range of products and services we will become active participants in the farming of agricultural end-users throughout the whole year. We also aim to further strengthen our competitiveness and market position in all of our businesses.

The trade concept of our Company and subsidiaries mostly focuses on providing a full range of services to our partners. Meeting these objectives is largely enhanced by the carefully planned marketing and consultancy activity, in which we lay great emphasis on making the Genezis brand name even more well-known, on creating brand loyalty and on providing end-users with expert information.

The active market presence of the team of sales advisers for the Genezis partner network continues to be the engine behind the growth of our sales activities. The personal relationship built with agricultural end-users and traders has provided both sides with the opportunity to develop. The continuous, high-level professional training of Genezis sales personnel is an integral part of the established trading policy.

After the launch in 2016 we worked continuously on adjusting the quality of services provided by our permanent establishments to the needs of our end-users, therefore in addition to storing and selling fertiliser they provide more flexible oppor-

tunities for the purchasing, cleaning, drying and warehousing of the produce of farmers and primary producers in the area.

The future growth strategy is quite ambitious. The investment cycle which started in 2013 almost finished by the end of 2017. As a result of the technologies of the completely new and revamped production plants we have an increased production capacity, which has enabled us to boost the volume of fertilisers we put on the market. In addition to providing a full range of services for domestic agricultural end-users, the strategic objective also includes increasing our presence on export markets; to this end we make an effort to have a stronger regional presence through developing the supply chain.

By selling our complex input product range with the related crop trading and ensuring a high level of service we want to contribute to the successful farming of our agricultural end-user partners, as well as increase their satisfaction with our products and services and their commitment to the Genezis brand. Our priority objective is to make excellent Hungarian fertiliser the number one choice of Hungarian agricultural producers.



Sales of fertilisers and chemical products

Our sales opportunities in the domestic fertiliser market were similar to those in 2016; no substantial changes took place in Hungarian agriculture in 2017. Although the weather was drier than in 2016, farmers still had an average year with medium crop yields.

Data from the Hungarian Research Institute of Agricultural Economics shows that fertiliser distributors sold 1,297,000 tonnes of single-component fertilisers directly to agricultural producers in 2017, 8% more than the year before.

In 2017 the domestic sales of the four major nitrogen fertiliser products (Pétisó, ammonium nitrate, urea and nitrosol) totalled 632,000 tonnes, exceeding the figure for the previous year by 7%. Domestic sales accounted for 55% of total sales. We sold most of the increased yield on our export markets.

In spite of the increased market supply, the Company maintained and even strengthened the competitive position of its nitrogen fertilisers as a result of the active market presence of the Genezis partner network and our enhanced marketing communication activities.

According to our main trade policy, our primary objective is to satisfy the demand of Hungarian agriculture for fertilisers as much as possible, however, due to our increased production capacity we have become able to provide a higher volume of goods for our subsidiaries on export markets than ever before.

Thus in addition to domestic trade, in 2017 our export trading activity was more significant, which we continue to carry out through our own subsidiaries established in the target countries.

The export volume of our nitrogen fertiliser products in 2017 was 516,394 tonnes, which is an increase of 46% compared to figures in 2016. The considerable growth was mostly due to the upswing in granulated Pétisó sales.

In the previous year we exported fertiliser products to 15 countries, and carried out major developments in several of these countries to accomplish our objectives.

Our subsidiary in Subotica, Serbia underwent organisational changes in the past two years to align with the new expectations. Sales in 2017 exceeded sales volumes in the previous years in this region several fold. The higher sales volume was also helped by the company increasing the number of its customers in Serbia and neighbouring Macedonia, furthermore, in 2017 for the first time it entered the market in Kosovo and

Montenegro, which makes it possible to make our products known to an increasing number of customers.

Warehousing capacities expanded in 2017, which also facilitated sales, and so now with four warehouses the company can meet all of the customers' demands in the fertilising season.

BH Chemical Impex Kft. operating in Satu Mare, Romania raised the number of its sales representatives again in the southern region along the Danube, facilitating greater sales volumes. Alongside the parent company's fertiliser products they also included the small packages produced by Péti Nitrokomplex Kft. in their product range.

Nitropét Slovakia Kft.'s permanent establishment is located in the Slovakian town of Veľký Meder, from where it supplies the Slovak and Czech markets with Genezis products.

In 2017 the company recruited more sales staff to reach more distant, hitherto untapped areas, mainly in the Czech Republic.

Our increased production capacity required the development of rail transport in addition to transport by road; we prefer rail transport mostly when delivering to Romania and Serbia. In relation to road and rail transport we constantly seek out development opportunities to deliver our fertilisers to our partners within the shortest possible time.

The gradual phasing out of FCA (free carriage from factory site) delivery terms and the phasing in of CPT (carriage paid to the recipient) delivery terms also continued in 2017. Our aim is to handle road haulage for the Company's export products ourselves in the long term to ensure even better and more flexible services for our foreign partners.

Since the chemical products of Nitrogénművek Zrt. are used widely by the industry, industrial performance influences our sales results to a large extent. The markets were characterised by a stronger supply and fiercer competition, while in 2017 the average price of our products was similar to the previous year.

We look upon our major industrial gas and liquid ammonia purchasers as our strategic partners, to whom we constantly pay special attention and this enables us to market the total amount produced.

The reliable quality of our products and services as well as our good partnerships established over the years contribute to the sale of our chemical products and to preserving our market position.



Seed sales

For arable crops, 2017 saw the cultivation area of corn and autumn wheat shrink, whilst that of sunflower seed and winter rapeseed grew slightly.

The seed trading season is not always the same as the financial year of the Company for all seeds. The Company achieved the market shares below for the main crops in the current seed trading period:

Description	2016 trading year	2017 trading year
Corn	8 - 9 %	10 %
Sunflower	8 %	9,5 - 10 %
Winter rapeseed	14 %	14 %
Autumn wheat	5%	9,5 %

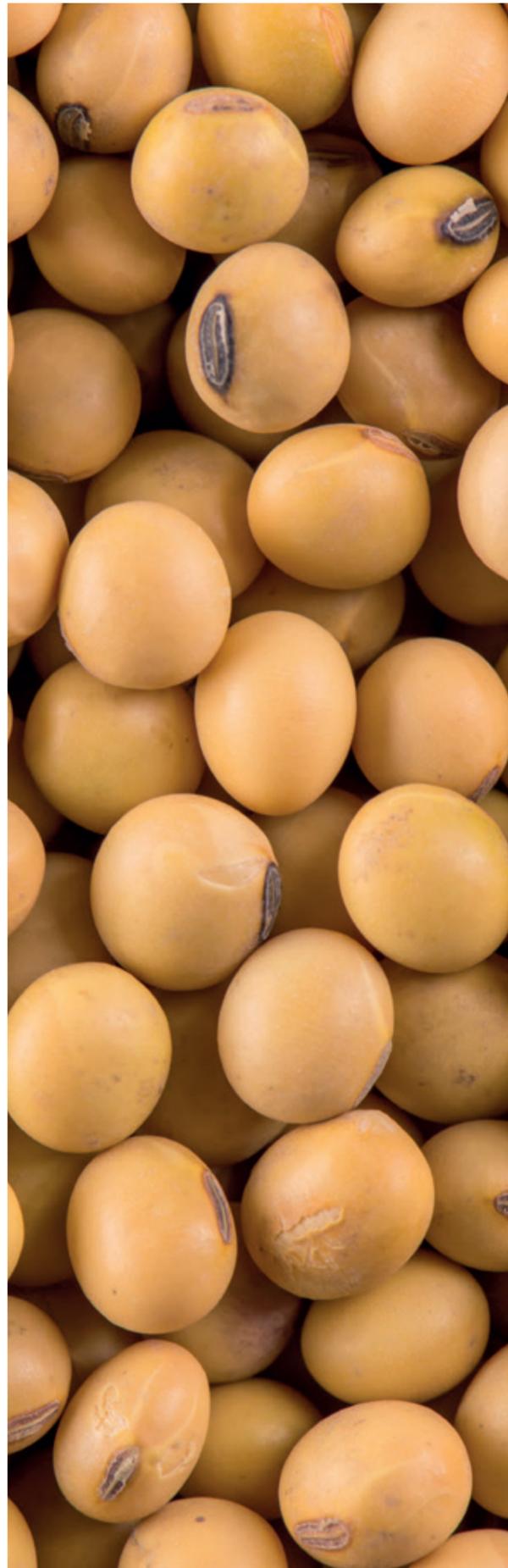
In 2017 we made significant progress in the trading of autumn cereals, to which the trading of seeds from own production and the cereal seeds sold under the Genezis brand made a significant contribution. As a result of the continuously increasing sales over recent years the Company now has improving procurement sources and strengthening relations with its partners.

The net sales revenue from seed trading jumped from HUF 4.9 billion in 2016 to HUF 6.6 billion in 2017, which increased the share of this business division from 7% in 2016 to 8% in 2017 in the total sales revenue of our Company. Parallel to this, the cost of goods sold increased from HUF 4.9 billion to HUF 6.4 billion.

The results above show that our Company managed to strengthen its positions by 1-2% compared to the previous period. End-user partners already seek out the sales representatives of the Genezis partner network to purchase their seeds.

Providing accurate services and credible information to producers and satisfying producer needs in a flexible manner will further strengthen our Company's market positions in the coming years, facilitated also by the increasingly specialised expertise of the sales representatives.

As for the future, it is important to underline that our Company will only operate on the seed market with cereal seeds it produces, which is a positive change in this business.



Sale of crop protection chemicals

Our Company set itself the primary aim in 2017 of providing fair and accurate services to producers, and principally in a timely manner, in addition to strengthening its positions and increasing its sales in the domestic market of crop protection chemicals.

The net sales revenue from our trading of crop protection chemicals soared from almost HUF 1 billion in 2016 to HUF 1.8 billion in the 2017 financial year, increasing its market share to 2-2.5%. The cost of goods sold increased at a similar rate to sales revenue, rising from HUF 0.9 billion to HUF 1.7 billion.

The increased turnover is partly due to the increased sales of our import crop protection chemicals and partly to the broader product range. We broaden the range of crop protection chemicals imported from abroad both in terms of the countries of origin and the types of chemicals, in 2017 we acquired 40 new licences. It goes without saying that the

number of users visited by our sales representatives also increases year-by-year. In addition to partners from the arable land business, we also have horticulture producers amongst our customers. This is a segment where we plan to increase sales of chemicals dynamically.

Unique on the Hungarian market, certain services including the storage, picking and delivery of crop protection chemicals have been outsourced to a logistics company. For the provision of more flexible services for our clients, we plan to establish our own storage points for crop protection chemicals in the near future.

On the market for crop protection chemicals, which is in a state of permanent change, we still aim to increase our domestic sales and our market share, to enable us to grow and become a key player in the trade of crop protection chemicals in Hungary.

Sale of crop trading division

The net sales revenue of our crop trading division increased from HUF 10.3 billion in 2016 to HUF 17 billion in 2017. Parallel to this, the cost of goods sold increased from HUF 9.6 billion to HUF 15.7 billion.

The growth in sales revenue can be put down to crop sales exceeding the same figure in the previous year by 178,000 tonnes.

Sales to the five most important customers account for 63% of crop sales revenue, amounting to HUF 10.8 billion.

Breaking sales down by crops sold, corn accounts for nearly 75% of all sales, other cereals such as wheat, barley and triticale account for around 15%, while oil seeds – rapeseed and sunflower seed – make up around 10%.

The number of our partners both in purchasing – where purchases were made from hundreds of producers and producing

companies – and in sales increased significantly, so the Company's reputation grew both on domestic and foreign markets.

On the strength of sales volumes we have become one of the top 5 suppliers of the two largest Hungarian corn processing companies.

As part of the cooperation with manufacturers in neighbouring countries, our business division concluded agreements in a new market in 2017 with Italian partners, and also had major sales to Poland.

During the year our Company successfully renewed its ISCC registration, which means we can still provide full crop traceability for our partners.

Sale of products in small quantities and foliage fertilisers

With its tried-and-tested 2, 5 and 10 kg products, Péti Nitrokomplex Kft. has been a long-standing fixture in farm shops and hypermarkets. The Company offers various nutritive salts and solutions for flowers, mono- and polymetallic chelate products, greening and multivitamin foliage fertilisers to hobby users. From its winter defrosting and de-icing products, sales of the solid de-icing salt were up substantially on the previous year. In addition to the above, the Kft.'s most important product is the Genezis arable crop foliage fertiliser range, the parts of which are sold with a special composition for cereals, corn and oil-seed crops.

Agricultural crop prices remained low in 2017; due to the lower sales revenue expected this always prompts farmers to save costs on input materials. Such include foliage fertilisers

because they are the input materials that are the easiest to forgo without major consequences.

As a result of the dry period from early March to the end of April 2017, which cast doubt on crop yields, producers were even more inclined to cut down on foliage fertilisers as much as they could. In spite of such unfavourable developments the sales volume of foliage fertilisers was up by 14% or nearly 150,000 litres in comparison with the previous year.

With its high nitrogen (23%), 3% magnesium and 5% sulphur content, Nitrospeed continued to be the most popular foliage fertiliser, with sales up by 35%.

The fact the majority of the company's products have been sold since 2016 via the Genezis partner network – a member of the Group – contributed substantially to the growth in sales volumes.

Sales of packaging materials

The coordination of production and commercial activities at Péti Polietilén Zsák Kft. is primarily determined by the parent company's needs for packaging materials.

Demand for the company's main product – FFS printed tubes – has been steadily declining owing to the change in packaging requirements, which means market competition is rising and really squeezing prices. Besides all this the prices of raw materials have been rising in the long term, notwithstanding significant short-term fluctuations.

The production of ready-to-use stretch foil, which is wrapped around products of different sizes by reeling machines, is an-

other segment of the company's own production. The market is very price sensitive. Advance payments are not possible when purchasing raw materials because suppliers do not give a return guarantee for advance payments, which results in high purchase prices. Thanks to identifying suppliers with as favourable prices as possible and as a result of the market research in 2017, the company's stretch foil sales jumped by 62% in comparison with the previous year.

To meet customer needs, the company is expanding its product range by purchasing packaging materials it cannot manufacture itself, and by direct sales of them.

Employment policy

The framework of our employment and wage policy as well as the system of remunerations and fringe benefits are laid down by applicable laws and regulations as well as the Collective Agreement of the Group companies.

As of 1 January 2017 basic wages were increased by 8% on average. The management attributes great importance to that the employees have appropriate educational and professional qualifications which comply with legal requirements and company expectations. Training in a school environment and special courses are implemented accordingly, furthermore the participation of employees at conferences and presentations is also supported by the Company since this is instrumental for properly carrying out tasks stemming from amendments to laws and regulations. To ensure a supply of labour and as an important element of our social responsibility we main-

tain close links with secondary schools involved in vocational training in the region and with the Chamber of Commerce and Industry in Veszprém county. In addition, based on co-operation agreements, students of many higher education institutions spend weeks of their professional training at our Company every year after the academic year is over. Our management is determined that employees should be committed to the Company, enjoy themselves and for the work to meet their expectations. To this end we place great emphasis on maintaining and permanently increasing employees' satisfaction. True to our traditions, we organised our "Pensioners' Gathering" in 2017 too along with the "Nitrogen Family Day". Ten employees were awarded the Chairman Award in 2017 as well in recognition of their work.

Sales Revenue And Operating Costs

Our consolidated companies achieved a net sales revenue of HUF 91.1 billion in 2017, which is an increase of 22.3%, i.e. HUF 16.6 billion compared to the previous year. The growth was essentially due to the increase of domestic sales and exports of Pétisó fertiliser and crop as well as the increase in domestic sales of seeds and crop protection chemicals.

2017 sales revenue of the Group (HUF million)

Description	2016	2017
Domestic, of which	53,261	59,544
4 main nitrogen-based fertilisers	33,177	33,162
Crop	9,588	13,577
Seed	4,877	6,618
Crop protection chemicals	971	1,818
Packaging materials	107	182
Other products and services	4,541	4,187
Export, of which	21,273	31,588
4 main nitrogen-based fertilisers	19,977	27,441
Crop	587	3,373
Seed	4	2
Packaging materials	211	138
Other products and services	494	634
Total sales revenue:	74,534	91,132

A decisive amount of our sales revenue – 66% – is attributable to the sale of fertilisers, which is directly related to our core activity. The quantity of nitrogen fertiliser sales amounts to 1,156,000 tonnes in commercial weight, of which our leading product Pétisó accounts for 84%.

In our sales revenue the HUF 25 billion resulting from various businesses – crops, seeds and crop protection chemicals – played a significant role, representing 29% of total sales revenue.

The amount of material-type expenses is a decisive element within operating costs, which includes costs of purchased raw and auxiliary materials, maintenance materials and fuel necessary for the production, as well as – among others – transportation, logistics, third-party maintenance costs, purchase costs of produce, seed and crop protection chemicals sold by the divisions.

Ammonia is one of the raw materials of fertiliser production, which is produced from natural gas, therefore the cost of it is a decisive factor within material costs.

Natural gas is purchased from West Europe, which is a more favourable environment in terms of competition. This enables us to retain our competitiveness and enhance our competitive advantages against our regional competitors.

Within material costs the purchase price of the electricity required for the parent company's technology is also significant.

The average price of electricity purchased externally rose by 24%, but its amount dropped by 19% owing to the electricity produced by the turbine generator put into operation in 2016. Within material costs the cost of packaging materials, including sacks, foils and pallets, is significant and is 36% higher on the previous year, primarily due to the increased share of packaged products.

The consolidated value of services used is 41% higher than in the previous year, which is mainly linked to the activities of Nitrogénművek Zrt. The main cost items are:

- we exported an increased amount of fertilisers, delivered by road, rail and waterways;
- compared to the previous year we stored a larger amount of fertilisers in domestic and foreign rented warehouses and the sales of crops also went up, which required the use of warehousing services;
- in relation to domestic sales, our transport costs increased because the amount of products delivered from our plants was 8% higher than in the previous year;
- the cost of logistic services was also higher owing to the increased costs of loading fertilisers, as well as the higher costs of entry into and removal from warehouses, wagon and ship loading costs, and gasification costs connected to the divisions;
- our advertising costs also increased as a result of our integrated campaign to grow the Genezis brand name;

The consolidated cost of goods sold in 2017 was HUF 26.9 billion, which is an increase of 45% compared to the previous year, primarily because of the rise in the sale of crops, seeds and crop protection chemicals.

Within staff costs in 2017 wage costs increased at every company compared to the previous year, partly due to the increase of basic wages and partly due to the increased staffing levels at foreign subsidiaries, while contributions relating to wage costs

dropped thanks to the favourable impact of the contribution cuts in Hungary.

Our operating profit amounts to HUF 7.8 billion, which together with the net finance income became a pre-tax profit of HUF 10.4 billion.

Our investment activities

We firmly believe that by investing you build the future. Accordingly, in line with the approved development concept, the major investments continued, and in some cases ended, in 2017.

- Under the agreement reached in late 2014 with ThyssenKrupp Industrial Solutions AG, a new Nitric acid plant with a 1,150 tonne/day capacity was built and put into operation by mid-2017. The plant meets the capacity requirements and all warranty parameters stipulated in the agreement, and it duly received all official utilisation permits and authorisations for operations. The financial settlements with all general contractors were completed. Production commenced and is ongoing.
- As part of the Granulation 2 plant, the Neutralisation 3 plant, which provides the Granulation 2 plant with ammonium nitrate melt, was built and put into operation in 2017. The investment allowed the Company to separate the Neutralisation 2 plant from the Granulation 2 plant, which will, in the future, provide only the upgraded Pétişó plant with ammonium nitrate melt.

The Neutralisation 3 plant was built by Olaj Terv Industries, while the technological licence was provided by ThyssenKrupp Industrial Solutions.

- The works relating to the capacity upgrade and reconstruction of the Pétişó plant closed down in May 2016 were completed in 2017, as a result of which the plant is now capable of producing 1,800 tonnes of Pétişó a day. As part of the investment, a product cooling system with a completely new technology was installed, together with the necessary supplementary units. The technology was developed by Nitrogénművek Zrt., while the main equipment was provided by Solex, Canada, and Rhewum, Germany.

- To implement the Company's capacity upgrade plans, a new dolomite grinder needs to be built, the construction of which started in 2016. By the end of 2017 the majority of the materials and the equipment had been delivered, and the degree of completion in the Dolomite 3 plant is around 85%. Mechanical, electric and precision equipment was installed, and the cold testing started in the first quarter of 2018. The plant is expected to be handed over in the spring of 2018 once the assembly work has been completed, the operation permits have been acquired, the hot forming tests have started, the plant has successfully been put into operation and the warranty measurements have taken place.

Nitrogénművek Zrt. has been a decisive participant in the region's economy for many decades. Our involvement is further enhanced by the fact that the manufacturing plant in Pétfürdő has undergone a complete transformation as a result of projects implemented in two large-volume investment cycles launched in 2004. Except for one, our investment projects were completed in 2017; consequently, with our more efficient manufacturing plants and their increased capacity we have become able to meet the domestic demand for fertilisers in full, and to provide a sufficient amount of goods to our subsidiaries operating in neighbouring countries. Besides, we are proud of having brought state-of-the-art technologies to Hungary as a result of our investments.



Our interests

Registered offices of subsidiaries indicated on map: Business interests of Nitrogénművek Zrt. in 2017

Name	Site	Ownership interest	Core activities
Consolidated companies			
Péti Nitrokomplex Kft.	8105 Pétfürdő, Hősök tere 14.	100%	Manufacturing, packaging and distribution of fertilisers
Péti Polietilén Zsák Kft.	8105 Pétfürdő, Hősök tere 14.	100%	Production and distribution of polyethylene packaging products
Nitro Pet d.o.o.	24000 Subotica, Matie Corvina 15.	100%	Transport and agency activities; retail distribution of chemical products and fertilisers
Nitropét Slovakia s.r.o.	932 01 Veľký Meder, Nám. Mládeže 117/27	51%	Retail and wholesale of agricultural products and chemical materials
BH Chemical Impex s.r.l.	440011 Satu Mare, Al. I. Cuza u. 2.	100%	Wholesale of chemical products
Nitropet d.o.o.	31000 Osijek, Ulica Hrvatske Republike 14.	100%	Distribution of artificial fertilisers and soil amendments
Non-consolidated companies			
Nitrogén-Pinkerton Kft.	8105 Pétfürdő, Hősök tere 14.	53.3%	Investigations, security services
Nádudvari Agrokémiai Kft.	4181 Nádudvar, Kabai u. 60.	24.52%	Production and distribution of artificial fertilisers and nitrogen-compounds
Nitropet Deutschland Handels GmbH	85540 Haar, Ladehofstrasse 10.	100%	Retail and wholesale
Nitropet Italia s.r.l.	39100 Bolzano, Via Galvani 21.	100%	Retail and wholesale
Nitropet Bulgaria e.o.o.d.	4001 Plovdiv, Hvoyna str. 1, floor 2 ap	100 %	Distribution of artificial fertilisers, soil amendments, crop protection chemicals, seeds, chemical products and wheat trade
Nitropet Austria Handel GmbH	1110 Vienna, Dopplergasse 2/5/14	100 %	Distribution of fertilisers, seeds, chemical products and wheat trade
Koronás-Szarvas Kft.	8105 Pétfürdő, Hősök tere 14.	35.64 %	Cultivation of cereals (excluding rice), pulses, oil seeds
BIGE Szállítmányozási Kft.	8105 Pétfürdő, Hősök tere 14.	100%	Other ancillary services to transport
Nitrogén Projekt Kft.	8105 Pétfürdő, Hősök tere 14.	100%	Asset management





■ Main indicators

	(HUF million)	
	2016	2017
IFRS consolidated balance sheet		
Total assets	178,445	181,203
Total non-current assets	93,543	121,231
Total current assets	84,902	59,972
Total equity and liabilities	178,445	181,203
Shareholders' equity	53,408	63,085
Non-current liabilities	98,478	86,246
Current liabilities	26,559	31,872
IFRS consolidated profit		
Net sales revenue	74,534	91,132
Other income	639	1,149
Total operating income	75,173	92,281
Material-type expenses	58,013	77,326
Staff costs	5,591	6,057
Depreciation and amortisation	2,951	4,543
Other expenses	2,654	2,140
Changes in self-manufactured inventories	-1,462	-4,858
Capitalised value of self-manufactured assets	-759	-747
Total operating costs	66,988	84,461
Operating profit	8,185	7,820
Net finance income/cost	-3,340	2,667
Share of profit of associates, net of tax	43	-47
Profit before tax	4,888	10,440
Key profitability and capitalisation ratios:		
EBITDA	11,136	12,363
ROS – Return on sales	7%	11%
TATO – Total asset turnover	42%	50%
ROA – Return on assets	3%	5%



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