



2018

NITROGÉN MŰVEK ZRT.
ANNUAL REPORT



Aguller y Solas
M. 31 70 81 70 - BURGOS

AGULLER Y SOLAS, S.A.
INDUSTRIAL ZONE
BURGOS

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Message from the Chairman-CEO



Dear Partners,

Nitrogénművek Zrt. sees the business year 2018 as a rather controversial period. Just like other market participants in the region, we also experienced an adverse market environment and some unfavourable factors at macro-market level, impairing our profitability, impossible for us to control.

However, regardless of these difficulties, we managed to initiate several important short-, medium- and long-term beneficial changes in 2018. During the year, the Company successfully refinanced its USD 200 million bond and parallelly EUR 200 million bond has been issued with lower interest rate in order to optimise its financial resources.

As a first one in a series of steps of a major process, where our business management technology will be fully transformed in the years to come, an integrated HR system was implemented, following a preparatory phase starting in the autumn of 2018. At the same time, an automatized EKAER road transportation control system was also introduced in the last quarter of the year.

The Pétfürdő plant, considered to be the flagship of the Group, has been fully refurbished and transformed since 2004. In the last phase of another major project cycle started in 2013, Dolomite Mill3 was commissioned in September 2018. As a result of the investments, our capacity and efficiency have been boosted, facilitating a further increase in our competitiveness. In the past few years, Nitrogénművek Zrt. has established its own sales network covering several neighbouring countries, in the framework of a carefully designed sales strategy. This network provides a sound base for distributing the increased volume of commodities produced by us on international markets.

In the future, Nitrogénművek Zrt. plans to face modern challenges by means of continuous product development, investments into production plants, reinvesting a major part of its profits and penetrating new markets. Our success is guaranteed by several decades of experience and diverse business relations as well as an excellent staff producing premium quality products. Maintaining our innovative approach, a unique feature even in industry comparison, the Group aims at providing full services for its partners and act as a key stakeholder in agriculture both in Hungary and in the region.

Sincerely yours,
László Bige
Chairman CEO



■ Board of Directors of Nitrogénművek Zrt.



ZOLTÁN BIGE
General Manager



LÁSZLÓ BIGE
Chairman-CEO



ZALÁN BIGE
Member of the Board

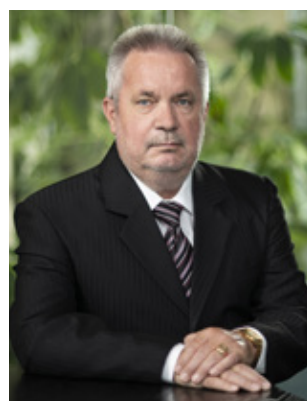


ESZTER FÁBRY
Chief Finance Officer



JÁNOS SZILÁGYI
Chief Executive Officer

■ Supervisory Board of Nitrogénművek Zrt.



GÉZA TÓSOCKI
Employee's representative,
member of the Board



RÓBERT SZUROVCSÁK
Chairman of the Board



ZOLTÁN GYENES
Member of the Board



A brief description of Nitrogénművek Zrt. and the consolidated companies

The most important activities of Nitrogénművek Zrt. and its subsidiaries are the production and sale of fertilisers, with special regard to nitrogen fertilisers. The core products of the company are ammonium nitrate, urea and Nitrosol fertilisers, in addition to our traditional dolomite added nitrogen fertiliser Pétisó, manufactured both in granular and prilled forms with premium quality.

Our product portfolio also includes foliar fertilisers as well as the manufacture and sale of polyethylene bags used for packaging. In the past 4 years, various sales branches were added to our profile and positive market feedbacks have justified this strategy. The seeds, crop trading and plant protection chemical sales branches are operated at Nitrogénművek Zrt's premises in Budapest.

The activities of the Group include the production of chemical products and the rendering of industrial services, in addition to the production of a full range of fertilisers.

The parent company manufactures its products in Pétfürdő. Ammonia and nitric acid i.e. the most important raw materials for fertiliser production are produced by Nitrogénművek Zrt.

Buying and transporting fertilisers as close to the time of actual use as possible is becoming more and more required by end-users. Accordingly, the Group needs to have sufficient capacities to store products, occasionally for long periods. To arrange for the necessary storage capacity, we operate sites at various locations in Hungary (Barcs, Hőgyész, Kiskorpád, Nagyatád, Nagydorog, Nagykamarás, Szilsárkány) which are able to provide suitable conditions for fertiliser storage and facilitate the storage. These sites also support the operation of the crop sales branch by means of enabling the storage, cleaning and drying of agricultural products purchased from end-user partners in the area, thus extending our range of services provided for agricultural producers.

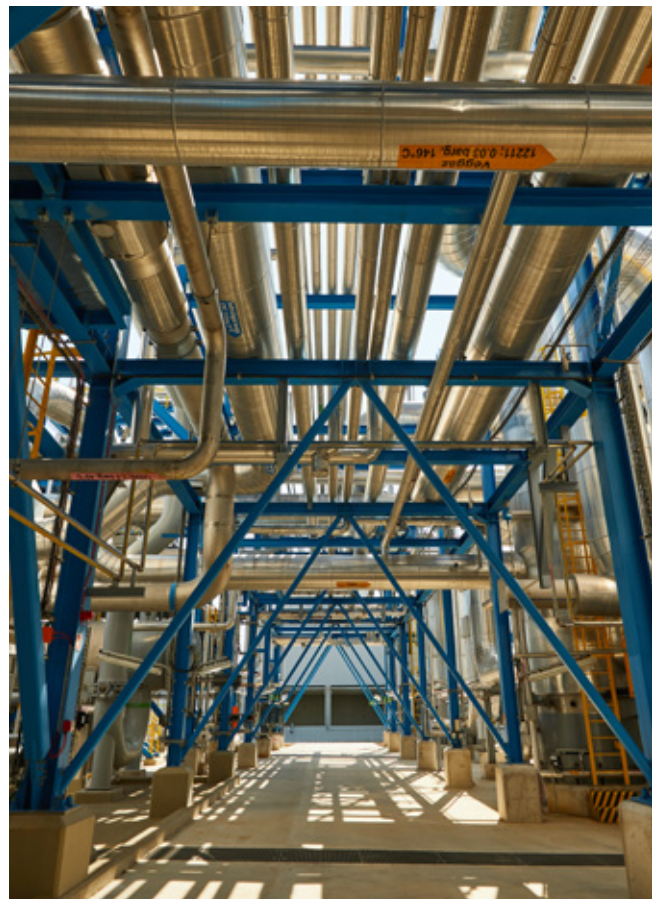
The production activities of Nitrokomplex Kft. and Péti Polietilén Zsák Kft., both consolidated companies of Nitrogénművek Zrt., are also performed at the Pétfürdő site of the parent company. Power, steam, compressed air and other infrastructure demands of the subsidiaries are supplied by the founder Nitrogénművek Zrt.

The principal activities of Péti Nitrokomplex Kft. are the production and distribution of special products with added macro

and micro elements as well as distributing the parent company's fertiliser products packaged for retail sale. Furthermore, the company also packages fertilisers not produced anywhere else by the companies of the Group including for example superphosphate and potash.

Péti Polietilén Zsák Kft. manufactures and distributes polyethylene packaging materials, bags of various sizes and wrapping. According to the business policy of the consolidated subsidiary, the manufactured bags and wrappings essentially supply the demands of the parent company; however, the remaining free capacity is used to serve the needs of third parties.

The general role of the other consolidated companies is to provide exporting services for the Group, develop markets customised to the commercial and legal peculiarities and requirements of particular countries and increase brand awareness and recognition. Nitro Pet d.o.o. Serbia, NITROPÉT Slovakia s.r.o., BH Chemical Impex s.r.l. Romania, Nitropet d.o.o. Croatia and Nitropet Austria GmbH. operate in neighbouring countries where their single activity is the distribution of Genezis products.





Production

In 2018, Nitrogénművek Zrt. closed a major investment cycle that had been started in 2013. The projects involved several plants equipped with state-of-the-art technology. During the year, the Granulation2 plant with a nominal capacity of 1,960 tons/day Pétság or producing 1,550 tons of granular ammonium nitrate a day successfully completed the guarantee test with granulated ammonium nitrate. Dolomite Mill3, a new unit supplying the plant with ground dolomite and limestone was also commissioned in the autumn of 2018.

Since the last turnaround in 2015, 2018 was the third year of the turnaround cycle when the Company did not stop its plants for planned overhaul. The production branch including the plants built or refurbished in the framework of the major project cycle was still subject to fine tuning in 2018. In addition to this, the Ammonia plant had 3 outages during the year, corresponding to almost 58 days, which provided an opportunity to perform the necessary maintenance works. Ammonia is always produced in a volume to match the needs of the processing plants, which in turn are determined by the current market demand. Our production strategy at any given time focuses on the production of the currently demanded products, supported by the flexibility of the production structure.

The production of nitric acid in both of our nitric acid producing plants was adapted to the demands of the fertiliser plants; the nitric acid supply during the year was uninterrupted.

In the Nitrosol season from the beginning of March until the end of May, Urea plant operated continuously, except for a minor outage. In the second half of the year, the lining plates

of the urea reactor were replaced; this activity was finished by the end of the year.

In 2018, production in the nitrate fertiliser plants was defined by the volume of ammonia available and market demands. Major malfunctions resulting in significant losses were not reported for any of the fertiliser plants.

Granulation1 repeated its experiments started in the previous year where fertilisers with an N content of 16% and also containing humic acid had been produced and stored. The repeated experiments were considered successful.

Granulation2 plant produced granulated ammonium nitrate several times during the year. The experiments in the first half of the year were not considered successful yet; however, the experiences of the trial runs and the related technical transformations resulted in successful guarantee test in November.

Production in the Argon plant was adapted to that of the Ammonia plant where annual production stayed below the planned target due to the outages described above.

The cooperation with Messer to produce high purity liquefied methane continued in 2018 with the implementation works of the project. The project is expected to be finished at the end of the first half of 2019.

The daily production capacities achieved by the investments started in 2013 by Nitrogénművek Zrt. are summarised in the table below.

| AVAILABLE DAILY PRODUCTION CAPACITIES IN 2018 AS PER PLANT (T/DAY) | | % INCREASE SINCE 2013 |
|--|-------|-----------------------|
| Ammonia plant | 1,400 | +17% |
| Pétság plant | 1,800 | +20% |
| Nitric acid plants | 2,950 | +79% |
| Granulation plants (Pétság) | 3,360 | +140% |



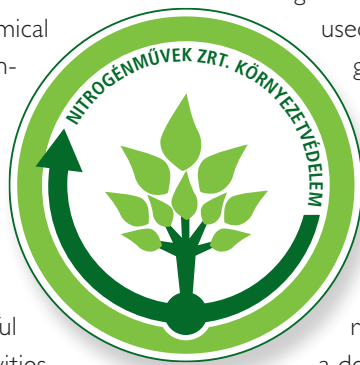


Environmental protection

An objective of the Group is to supply end-users with state-of-the-art products and expert advice continuously so that they can work in harmony with the environment while remaining sustainable and up-to-date on the long run, having better average yields and gaining extra profits. The Group takes special care to comply with the obligations set forth by its IPPC permit, the relevant compulsory orders and other legislation.

As a group of companies active in the chemical industry, we are committed to the reasonable and careful use of the environment as a prerequisite of our development in the future. Hence, the Group is keen on always operating in accordance with the environmental regulations, fully complying with the strictest safety rules, always applying state-of-the-art technologies and mitigating harmful environmental impacts resulting from its activities.

Members of the Group report, register and dispose hazardous waste in accordance with the relevant provisions. Paper, plastic and office waste are delivered to a waste recovery organisation. Municipal and inert wastes are transported for disposal by licensed organisations.



Accordingly, the packaging waste of Péti Nitrokomplex Kft. is recycled by an external subcontractor. Leachate and rinsing water from the plant are collected in a 10-m³ sump and in IBC tanks. Following a laboratory analysis, these liquids are sold.

The polyethylene waste generated during production is recycled by Péti Polietilén Zsák Kft. Solid waste is shredded and re-granulated and the raw material thus produced is used for reduced quality products, reducing scrap generation.

At the premises of the other subsidiaries, hazardous waste was not generated and harmful emissions and releases were not made.

As a socially engaged company keen on complying with the regulations of the Environmental Act, Nitrogénművek Zrt. prepares a detailed annual report on its environmental activities which is directly accessible for local residents.

In the framework of the Fertilisers Europe Product Stewardship Programme, Nitrogénművek Zrt. is committed to keep to the highest safety, health and environmental standards in the fields of production and distribution.





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MÁGYAR
MŰTRÁGYA

MÁGYAR
MŰTRÁGYA

700 kg
nettó tömeg

700 kg
nettó tömeg

39%
tiszta anyag

39%
tiszta anyag



2018 SALES

2018 Sales

The business strategy of the Group is based on providing full services to its partners. The marketing and consultancy activities of the parent company are also essential in achieving strategic goals.

Our business strategy is supported by a unified image so that customers can readily recognise the Genezis brand, a perfect symbol of the profound role that the Group plays as a market participant. Accordingly, we emphasise the importance of promoting the brand, establishing brand loyalty, supporting the distribution network and promote extra yields at end-users by means of providing professional advice on the proper use of the product.

Our qualified and experienced distribution network makes recommendations on the types of fertilisers most suitable to satisfy the needs a particular field or farmer, also considering the criteria of sustainable development at all times.

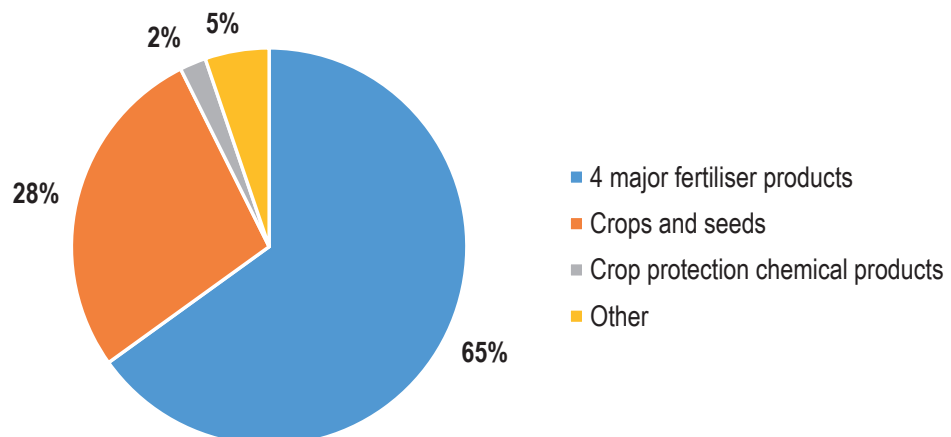
In addition to the core activities of the Group (production and distribution of fertilisers), we have been active in the trade of crops, seeds and crop protection chemicals for 4 years as well and our market share has been increasing steadily.

In the summer of 2018, the Group extended its own sites with a new subsidiary complete with drying and storing facilities in Szilsárkány, west of Győr, Hungary. With this new one, the Group owns now altogether seven sites. These sites are used for fertiliser storing, crop cleaning and storing functions, representing an optimum solution regarding logistics and promoting the extension of services to farmers active in the area.

Just like in 2017, our Consultancy Group carried on with their series of experiments "Club of 500". Currently, each sales agent/consultant completes two experiments, where the entire volume of the fertilisers needed for the Genezis plots and the required amount of seeds for the entire experimental area are provided by us. From 2019, two Club of 500 experiments will be set up in each Hungarian county, where the Genezis trial plots will again receive the entire volume of the necessary fertilisers from the Company.

The soil sampling and analysis services related to the experiments of the Consultancy Group are provided by us in the future, too, as required by the farmers involved, in cooperation with an accredited soil analysis laboratory. The option of having analyses at reduced prices could be utilised by several farmers in 2018, too. Relying on soil analysis results, our sales agents and chief consultants provided environmentally friendly and plant and soil specific expert advice using the specific ProPlanta software. Farmers can order the products indicated in the expert advice from the sales agents active in the particular areas. Like before, farmers participating in the Club of 500 experiments uniformly provide 3-ha plots for the Genezis trials. Plots receive the fertilisers deemed necessary by the expert advice free of charge. The duration of the cooperation for experimenting purposes is one year according to the relevant contracts. In 2018, open field fertiliser trials were conducted at 9 universities and research stations. The Consultancy Group also participated in the related presentations and demonstrations. Experiments matching the requirements of specific development projects were designed and performed at the University of Kaposvár and the University of Nyíregyháza as well as in Szarvas, Hungary.

Breakdown of the consolidated revenue by products in 2018





Sales of fertilisers and chemical products

The volume of fertilisers sold in 2018 was similar to that in 2017. The market conditions similar to those in previous years and our flexible sales policy promoted the relatively successful exploitation of favourable agricultural conditions in Hungary. There were no major draughts in the 2018 season; cereals, sunflower and oil seed rape had an average yield while maize yields were above the average. The volumes of nitrogen, phosphorus and potassium active ingredients broadcast were similar to those in former years. The fertilising technologies applied by individual farmers still vary broadly. The ratio of crops produced in Hungary did not change significantly compared to 2018.

The table below presents the baseline and actual data of the sales of the 4 major products expressed in commercial weight (thousand tons).

| Name | 2017 (baseline) | 2018 (actual) |
|------------------|-----------------|---------------|
| Ammonium nitrate | 14 | 124 |
| Pétisó | 961 | 862 |
| Urea | 88 | 71 |
| Nitrosol | 84 | 87 |
| Total: | 1,147 | 1,144 |

At Nitro Pet Szerbia Kft., a company seated in Subotica but also distributing products in Macedonia and Kosovo, the continuous growth promoted by reorganisation could still be observed. In 2018, the increase in sold volumes was 22% compared to the previous year. This growth was also promoted by the multiplication of the number of direct and indirect customers in the past few years and the extension of the storage capacity in 2017. The number of warehouses stayed the same in 2018; however, the renting system was shifted from fixed fees to a more profitable solution where fees are paid according to stored volumes.

BH Chemical Impex Kft. operates in Satu Mare, Romania, but has own sites in Ciacova and Sânnicolau Mare, Romania. The company is the exclusive distributor of fertilisers produced by Nitrogénművek Zrt., Bige Holding Kft. and Péti Nitrokomplex Kft. in Romania. By further increasing the number of its sales agents, an optimum coverage could be achieved in the entire country. Regarding sales activities, the counties Timis and Arad are located optimally and have special priority; BH Chemical Impex Kft. has now sufficient human resources to build markets there. Chemical Impex Kft. has eleven rented warehouses located across the country from the north-western region to Moldavia.

Nitropét Szlovákia Kft., a company active on both Slovakian and Czech markets, is based in Vel'ký Meder, Slovakia. When compared to 2017, the first half of 2018 was characterised by increasing demand and supply and lower prices. The consolidated subsidiary was able to deliver results similar to those of the previous year, selling more than 136 thousand tons of the fertiliser products of the parent company. Nitropét Szlovákia Kft. wishes to stabilise and increase its market share by means of a fast, continuous, reliable and premium quality supply of goods, flexible pricing policy and precisely planned logistics.

Nitropet d.o.o. Croatia is based in Osijek, Croatia but also distributes products in Bosnia and Herzegovina and Slovenia. The company started the 2018 business year in a rather dynamic fashion. In the first quarter, sold volumes were significantly higher than in the same period a year before, just as expected. In total, sold volumes exceeded last year's data by 34%.

Vienna-based Nitropet Austria Handel GmbH started its operation in the second half of 2016. Since its founding, the company has been busy with networking with its clients and establishing brand awareness and as a result, its market position has become strong and stable by now. Rewarding the importance of its activities, Nitropet Austria Handel GmbH was consolidated as a subsidiary in 2018.

The chemical products of the Group are used in various applications by the industry. The performance of the sector has a significant impact on our sales results. Industrial production was higher in 2018 than in the same period a year before by 3.6% according to the data of the Hungarian Central Statistical Office. As indicated by the economic research institute GKI Gazdaságkutató Zrt, Hungarian economy showed a growth of 4.8% in the second quarter of 2018; this quarterly rate of increase has been unparalleled since 2005. The growth rate of the Hungarian economy is twice as much as the European average calculated by the methodology also used by the EU and as such, it has one of the fastest dynamics in the region. In such an economic environment, markets are characterised by an increase in supply and intensifying competition. Unlike agricultural partners, industrial users buy the chemicals produced by Nitrogénművek Zrt. continuously, at a more or less stable rate throughout the year to be used as raw materials. The revenue of the Group from the sales of chemical products and industrial urea decreased by 11% compared to the previous year, totalling HUF 0.9 billion in 2018.



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GENEZIS

Minden, ami növénytermésztől

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Seed sales

In 2018, the branch generated a revenue of HUF 6.9 billion. In the case of maize and winter wheat, the most important arable crops, a decrease could be observed while sunflower and winter oilseed rape showed a slight growth, corresponding to a total revenue increase of 4% compared to that in the year before. The rate of crop stocks carried over from the previous year was similar to that in the year before at the distributors. In the case of maize in particular, such stocks made up 6% of the market. In the case of oil crops i.e. sunflower, winter oilseed rape and soybeans, carried over stocks did not have a significant influence on the market.

In 2018, the Company made substantial progress in selling winter cereal seeds. This growth was essentially promoted by the sales of cereals under the brand name Genezis. Turnover has been steadily growing over the years and as a result, the Company has now continuously improving sources of supply and well-established business relations.

An intense price competition developed on the market of spring seeds, resulting in significant price reductions by distributors and producers on the end-user market. To balance this trend, the Company searched for new supply channels and concluded new contracts.

In the business period discussed, the seed trade branch of Nitrogénművek Zrt. had market shares similar to those in the previous year regarding the main crops (see below):

- Maize 10 %
- Sunflower 10 %
- Winter oilseed rape 12 %
- Winter wheat 10,5 %

Our favourable market position is illustrated by the fact that end-users are actively searching now for the sales agents of the Genezis Partner Network.

Tailoring our seed supply to the demands of producers and providing farmers with reliable information will further strengthen the market positions of the Company in the coming years. This positive trend is expected to be promoted by the increasingly specific professional knowledge of sales agents.

The table below presents the baseline and actual data of our seed sales.

| Data in HUF million | 2017 (baseline) | 2018 (actual) |
|---------------------|-----------------|---------------|
| Maize | 3,375 | 3,490 |
| Sunflower | 1,595 | 1,412 |
| Oilseed rape | 699 | 736 |
| Wheat | 606 | 726 |
| Other | 345 | 551 |
| Total: | 6,620 | 6,915 |



Crop sales

In 2018, the branch realised a sales revenue of HUF 19.5 billion. In this period, the value of crops sold by the crop sales branch increased by 14% compared to 2017. With this turnover, the Company has become a major participant on the Hungarian crop market.

Regarding the distribution of crops, about 70% of the total turnover was given by fodder maize, while other cereals, mostly wheat, barley and triticale made up about 15%. The remaining 15% was given by oil crops, oilseed rape and sunflower in particular.

The branch could increase awareness both on Hungarian and international markets. The number of its partners is still significant regarding both buying-in and sales.

Several new agreements have been developed with crop processing companies in neighbouring countries. The branch has also penetrated new markets in Italy. In 2018, the branch performed major sales activities in Poland, too.

Trade processes are supported by a stable technological background, optimising the available resources. Crops are purchased from primary producers in a fully automatized system from concluding contracts to settling invoices.

For the baseline and actual data of crop trading, see the table below.

| Data in HUF million | 2017 (baseline) | 2018 (actual) |
|---------------------|-----------------|---------------|
| Maize | 13,044 | 13,503 |
| Wheat | 1,568 | 1,825 |
| Barley | 1,034 | 789 |
| Sunflower | 730 | 1,991 |
| Oilseed rape | 250 | 1,032 |
| Other | 323 | 315 |
| Total: | 16,949 | 19,455 |

Sales of crop protection chemicals

In 2018, changes on the global market of crop protection chemicals continued with mergers and the transfer and purchase of portfolio packages. In addition to rearranging the market positions of producers, these changes also generated a buyers' market. About 60% of the crop protection chemicals trade is typically owned by one market participant in Hungary, while the number of traders decreased and new traders failed to enter the market in the past 3 to 4 years.

In 2018, our crop protection chemicals branch realised 2 billion forints of sales revenue, corresponding to a growth of 13% compared to the previous year. Close relations with our suppliers and the activities of our sales network, some of the main strengths of the branch, significantly contributed to the increase in our turnover.

To supply the needs of our partners at a competitive market price and reduce lead times to a possible minimum, the Com-

pany decided in 2018 to rent warehouse spaces to replace the previously used less cost-effective solutions. By means of bringing 3 new warehouses into our activities, the storing and transporting expenses of the branch could be reduced by 20% compared to the previous year while the turnover creased. In 2018, more than 55% of the sales were made up by imported crop protection chemicals which is unparalleled on the Hungarian market.

The 2018 profit of the branch was heavily impacted by the claims related to the non-compliance of the imported Adengo crop protection chemical. However, the Company expects a compensation for these losses in 2019 as a result of the negotiations with the producer.

The baseline and actual values of the branch's turnover were as follows:

| Data in HUF million | 2017 (baseline) | 2018 (actual) |
|---------------------------|-----------------|---------------|
| Crop protection chemicals | 1,818 | 2,057 |

Sales of products in small packages and foliar fertilisers

Péti Nitrokomplex Kft. launched two new biostimulant products containing a 14% amino acid complex in 2018. In addition to the standard product, unique versions tailored to specific consumer needs are also produced. The small packs of 2, 5 and 10 kg available in supermarkets and farm shop networks are still popular as well. The product portfolio of Péti Nitrokomplex Kft. includes several ranges of foliar fertilisers specifically developed for cereals, maize and oil crops, as well as de-icing and defrosting products for the winter season. Our fertiliser ranges for ornamental plants, liquid plant food products, multivitamin foliar fertilisers and greening agents are popular with hobby gardeners.

Foliar fertiliser demand is essentially determined by the weather. However, despite unfavourable weather conditions in 2018, there was an 18% increase in sold foliar fertiliser volumes

compared to the previous year as a result of our effective sales strategy.

Péti Nitrokomplex Kft. is one of the 3 largest distributors on the Hungarian foliar and liquid fertiliser market of multiple participants.

For the baseline and actual data of the turnover of Péti Nitrokomplex Kft., see the table below.

| Data in HUF million | 2017 (baseline) | 2018 (actual) |
|---------------------|-----------------|---------------|
| Product sales | 816 | 802 |
| Services | 17 | 4 |
| Sales of goods | 278 | 268 |
| Total: | 1,110 | 1,074 |

Sales of packaging materials

The sales revenue of Péti Polietilén Zsák Kft. is heavily influenced by the packaging material demands of the related companies, this being a priority when coordinating production and distribution activities. The main product of the subsidiary is FFS printed tubes. In addition to that, the product portfolio also includes polyethylene packaging materials of various sizes and characteristics as well as ready-made stretch film manufactured by reeling. Adapting to customer requirements, the portfolio of Péti Polietilén Zsák Kft. also includes packaging materials that cannot be manufactured by the plant; these are purchased and directly sold by the company.

The table below present the turnover of Péti Polietilén Zsák Kft. including baseline and actual values.

| Data in HUF million | 2017 (baseline) | 2018 (actual) |
|---------------------|-----------------|---------------|
| Product sales | 755 | 632 |
| Material sales | 8 | 3 |
| Services | 0.8 | 1 |
| Sales of goods | 65 | 72 |
| Other | 102 | 0.6 |
| Total: | 930 | 708 |

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 internal and external regulations as well as the Collective Agreement of the Group companies. In the framework of the 2018 salary progression, personal basic salaries increased by 10% on average.

The average number of full-time staff at the consolidated companies is given by the table below.

| AVERAGE NUMBER OF STAFF (PERSON) | 2017 (BASELINE) | 2018 (ACTUAL) |
|----------------------------------|-----------------|---------------|
| Nitrogénművek Zrt. | 675 | 654 |
| Péti Nitrokomplex Kft. | 18 | 22 |
| Péti Polietilén Zsák Kft. | 21 | 19 |
| Nitro Pet d.o.o. Serbia | 11 | 12 |
| BH Chemical Impex s.r.l. | 21 | 28 |
| NITROPÉT Slovakia Kft. | 6 | 7 |
| Nitropet d.o.o. Croatia | 4 | 4 |
| Nitropet Austria Handels GmbH | | 3 |
| Total: | 756 | 749 |

The management of the parent company considers the compliance of the educational and vocational qualifications of employees with legal and company requirements to be of paramount importance. To provide for this, the formal education and course-based vocational training of employees are performed accordingly and participation at conferences and presentations that help in adapting to legislative changes is also supported.

Remaining true to its traditions, the Company organised Nitrogénművek Family Day and Pensioners' Day in 2018, too, this time at new locations and with exciting new programmes.

Both proved to be highly entertaining events to be remembered by all the participants, active and retired employees alike.

Nitrogénművek Zrt. considers the acknowledgement of extraordinary performance very important. As a recognition of their contribution to the Company's results, 10 employees were selected to receive the Chairman's Award in 2018.

Family Day

Following its decade-long traditions, Nitrogénművek Zrt. organised its Family Day again in 2018, this time at a new venue by Lake Balaton with a very rich new programme.

The Family Day is the perfect occasion to bring together family and work and introduce family members and colleagues to each other, while everybody is having a great time.

At the new venue, participants of the Family Day, both old and young, enjoyed outdoor games, sport programmes and kids' shows, while the brave and the bold were free to join the cooking contest.

As always, a magnificent live concert provided carefree fun at the end of the day.



Chairman's Award

The Chairman's Award is an initiative launched in 2011 by the owner of the Group to acknowledge and award talented and committed employees showing extraordinary performance. Each year, 10 employees receive the award, selected from the candidates recommended by the collective, the management and the Trade Union.

The Chairman's Award is a moral and financial recognition of excellent performance.



Pensioners' Day

Nitrogénművek Zrt. is keen on maintaining contacts with its former employees. Pensioners' Day is organised each year by the Company. In 2018, the event had a new venue, in the community centre Hangvilla in Veszprém, Hungary. The event included an excellent theatre play and a lunch where old colleagues could share their memories.

Revenue and operating costs

In 2018, the consolidated companies obtained a revenue of HUF 95.8 billion, corresponding to an increase of 5.1% (HUF 4.7 billion) compared to the previous year. This boost was essentially due to the sales activity of the ammonium nitrate fertiliser and the crop sales branches, increased both on domestic and international markets compared to the previous year.

| Description | IFRS consolidated revenue | |
|-----------------------------|---------------------------|---------------|
| | 2017 | 2018 |
| Hungary | 59 544 | 60 978 |
| 4 main nitrogen fertilisers | 33 162 | 32 114 |
| Crop trading | 13 577 | 15 320 |
| Seed sales | 6 618 | 6 867 |
| Crop protection chemicals | 1 818 | 2 057 |
| Other products and services | 4 369 | 4 620 |
| Export | 31 588 | 34 780 |
| 4 main nitrogen fertilisers | 27 441 | 30 263 |
| Crop trading | 3 373 | 4 136 |
| Seed sales | 2 | 48 |
| Other products and services | 772 | 333 |
| In total | 91 132 | 95 758 |

The largest proportion (65%) of the Group's revenue is generated by fertiliser sales directly linked to the core activities. The commercial weight of sales regarding the 4 major nitrogen fertiliser products was 1,144 thousand tons, from which Pétisó, the leading product of the Group makes up 75%.

In addition to the sales of own produced fertilisers, the combined revenue of HUF 28 billion of the input branches – crops, seeds, crop protection chemicals - also has a significant share in the total revenue of the Group, making up 30%.

A substantial item among the operating costs of the Group is material expenses. This category includes the costs of raw materials, additives, maintenance and fuel purchased for the purposes of production, the transport and storage costs related to the logistics and storing of products to be sold, the purchase costs of crops, seeds and crop protection chemicals to be sold by the input branches and other direct and indirect costs incurred while operating the Group.

The raw material for nitrogen fertilisers is ammonia, which is produced from natural gas. Accordingly, natural gas costs have a definitive impact on the operating costs of the Group.

Natural gas is purchased from Western Europe, facilitating the maintenance of our competitiveness against regional market participants.

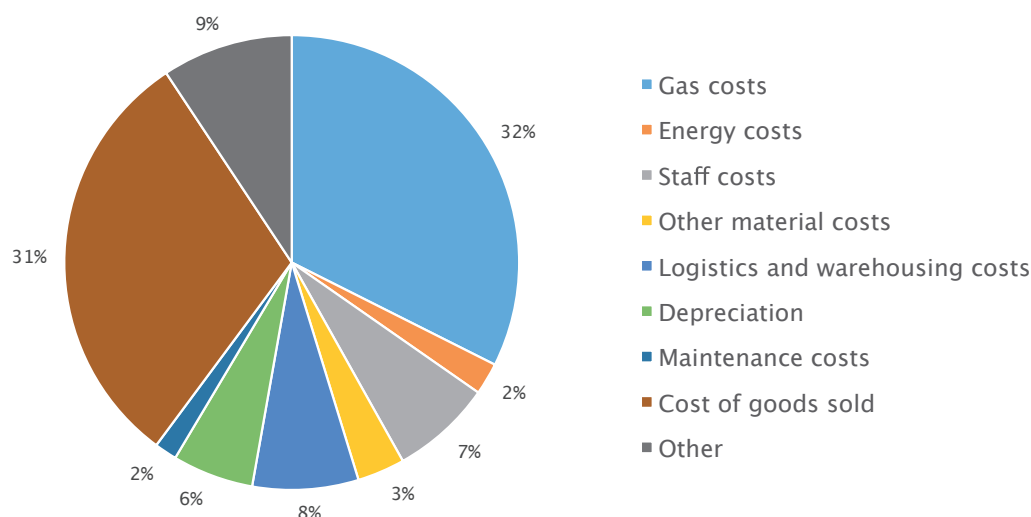
In addition to natural gas purchase costs, electricity costs and those related to packaging own produced fertiliser products (bags, films and pallets) are also significant items in the materials budget of the Group.

The consolidated value of services used showed similar trends to those in the previous year. The most important components of the 5% growth are mostly related to the sales activities by Nitrogénművek Zrt.

The consolidated acquisition value of sold goods was HUF 29.2 billion in 2018, showing a 9% increase compared to the previous year, essentially due to the purchase of goods caused by the increased sales by input branches.

Within the personnel costs, labour costs have increased at each company in 2018 compared to 2017, mostly as a result of the increase of base salaries.

Distribution of operating costs for the Group in 2018



Our investments

In September 2018, as the last unit of the 5-year-long project cycle, Dolomite-mill3 was commissioned. The producing facilities constructed or modernised in the framework of the investments implemented since the beginning of the new Millennium apply state-of-the-art technologies. Increased capacities enable us to fully meet the fertiliser demands of end-users in Hungary as well as in the neighbouring countries. The short descriptions of the projects completed are given below.

| CAPEX programme of 2014-2018 period (data in HUF mn) | 2014 | 2015 | 2016 | 2017 | 2018 | In total |
|---|---------------|---------------|---------------|---------------|--------------|-----------------|
| Priority investments including: | 11 476 | 33 327 | 6 506 | 29 025 | -215 | 80 119 |
| Construction of Nitric acid2 plant | 24 | 11 397 | -4 068 | 22 793 | | 30 146 |
| Construction of Granulation2 plant | 5 223 | 11 546 | 1 899 | 719 | | 19 387 |
| Ammonia plant capacity increase | 858 | 6 701 | 884 | | | 8 443 |
| T3 steam turbine generator | | 1 225 | 3 968 | | | 5 193 |
| Neutralisation3 plant | | | 1 913 | 3 278 | | 5 191 |
| Neutralisation2 plant | 3 043 | | | | | 3 043 |
| Dolomite-mill3 plant | | | 705 | 1 529 | 206 | 2 440 |
| Packaging3 plant | 97 | 2 017 | 105 | | | 2 219 |
| Dolomite-mill2 plant | 2 033 | | | | | 2 033 |
| CAN plant upgrading | 198 | 153 | 921 | 595 | | 1 867 |
| Other priority investments | | 288 | 179 | 111 | -421 | 157 |
| Standalone and replacement investments | 1 863 | 1 551 | 2 504 | 604 | 999 | 7 521 |
| Renewal | 743 | 791 | 1 719 | 2 880 | 593 | 6 726 |
| Nitrogénművek Zrt. | 14 082 | 35 669 | 10 729 | 32 509 | 1 378 | 94 367 |
| CAPEX of consolidated subsidiaries | 71 | 30 | 432 | 137 | 112 | 782 |
| CAPEX of the Group | 14 153 | 35 699 | 11 161 | 32 646 | 1 490 | 95 149 |

• Capacity increase of Ammonia plant to 1400 t/day

In 2013, Nitrogénművek Zrt. started a project to increase capacity and reduce the energy consumption of Ammonia plant, a unit that applies M.W. Kellogg technology. The nitrogen fertiliser producing branch is based on the Ammonia plant. Its nominal capacity was increased from 1200 t/day to 1400 t/day. The investment reduced the specific energy demand and through this, production costs. The Ammonia plant project enabled the Company to extend its fertiliser producing capacity in the future, thus promoting its competitiveness and its capacity to supply the increasing fertiliser demands of

the domestic market. The unit with extended capacity was commissioned in October 2016.

• Increasing the capacity of the Nitric-Acid plant

By boosting the capacity of the Nitric acid plant originally commissioned at the end of 2007, the daily production capacity increased from 1,650 t/day to 1,800 t/day. The investment was commissioned in December 2015.

- **New Nitric- Acid2 plant**

By commissioning the new plant using state-of-the-art technology in August 2017, Nitrogénművek Zrt. has become the leading nitric- acid producer of the region regarding production capacity.

- **Extending the Pétisó plant producing prilled fertiliser**

The calcium-ammonium nitrate capacity of the existing Pétisó plant that used to produce 1,400 tons of fertiliser a day has been increased to 1,800 t/day as a result of refurbishment. The investment was commissioned in December 2017.

- **Neutralisation2 plant**

In the framework of the investment, a new neutralisation plant was also constructed that resulted in the increased operational safety of the Pétisó plant. The new plant was commissioned in October 2015.

- **Dolomite-mill2**

To be able to produce Pétisó in increased volumes, a new dolomite- mill was needed, to replace the outdated, low-capacity plant that applied an obsolete 60-year-old technology. The new plant was commissioned in January 2015.

- **Granulation2 plant**

Granulation2 plant applies the technology known as “pugmill” to produce granules and as such it is one of the largest plants worldwide. The plant is equipped with state-of-the-art German technology and more than doubles our capacity of producing granulated fertilisers.

The quality of the fertiliser product is excellent in global comparison. The plant was commissioned by the Company in October 2016.

- **Steam turbine generator**

The Siemens condenser steam turbine commissioned at the end of November in 2016 and the linked generator produce electricity by condensing the high pressure steam not used by the fertiliser plants.

- **Neutralisation3 plant**

The plant supplies Granulation2 plant with ammonium nitrate solution, reducing energy consumption and the emission of harmful substances. It was commissioned in December 2017.

- **Dolomite- mill3**

Due to the modern dust separator system of the plant, its environmental load will be reduced significantly and we will be able to keep emissions below the EU limit values. The plant was commissioned as the last one in a series of investments in September 2018.
















- **Packaging plant**

With the introduction of new capacities, our goods dispatching capacity also needed to be extended. The investment was commissioned in October 2016. A modern unit was built to provide for the big-bag packaging of the produced fertilisers. The project also included the construction of new conveyor bridges, outside storage units, roads and a dispatching system for the road transport of fertilisers.



Our interests

Interests of Nitrogénművek Zrt. in 2018

| Name | Site | Ownership interest | Core activities |
|--|-------------|--------------------|--|
| Consolidated companies | | | |
|  Péti Nitrokomplex Kft. | Pétfürdő | 100% | Producing, presenting and distributing fertilisers |
|  Péti Polietilén Zsák Kft. | Pétfürdő | 100% | Production and distribution of polyethylene packaging products |
|  Nitropét Slovakia s.r.o. | Veľký Meder | 51% | Retailing and wholesaling of agricultural products and chemicals |
|  Nitro Pet d.o.o. | Subotica | 100% | Transport and agency activities; retail trade of chemical products and fertilisers |
|  Nitropet d.o.o. | Osijek | 100% | Distribution of fertilisers and soil amendments |
|  Nitropet Austria Handel GmbH | Vienna | 100% | Distribution of fertilisers, seeds, chemicals and cereal trade |
|  BH Chemical Impex s.r.l. | Satu Mare | 100% | Wholesaling of chemicals |
| Non-consolidated companies | | | |
|  Szállítmányozási Kft. / Genezis Trans Fuvarozási és Szállítványozó Kft.. | Pétfürdő | 100% | Other services incidental to transportation |
|  Nitrogén Projekt Kft. | Pétfürdő | 100% | Asset management |
|  Nitrogén-Pinkerton Kft. | Pétfürdő | 53,3% | Investigation and security activities |
|  Koronás-Szarvas Kft. | Pétfürdő | 35,64% | Cultivation of cereals (excluding rice), legumes, oil seeds |
|  Nádudvari Agrokémiai Kft. | Nádudvar | 24,52% | Production and distribution of fertilisers and nitrogen compounds |
|  Nitropet Bulgaria e.o.o.d. | Plovdiv | 100% | Distribution of fertilisers, soil amendments, crop protection chemicals, seeds, chemical products and cereal trade |
|  Nitropet Italia s.r.l. | Bolzano | 100% | Wholesale and retail trade |
|  Nitropet Deutschland Handels GmbH | Haar | 100% | Wholesale and retail trade |



Key Financials

| | (million HUF) | |
|---|----------------|----------------|
| IFRS Consolidated Balance Sheet | 2017 | 2018 |
| ASSETS | | |
| Non-current assets | | |
| Property, plant and equipment | 117 880 | 113 855 |
| Intangible assets | 460 | 438 |
| Investments | 2 363 | 2 642 |
| Interests in associates | 528 | 518 |
| Total non-current assets | 121 231 | 117 453 |
| Current assets | | |
| Inventories | 27 659 | 23 416 |
| Emission allowances | 874 | 1 889 |
| Current tax assets | 203 | 64 |
| Trade receivables | 3 429 | 4 453 |
| Other financial assets and derivatives | 3 361 | 2 509 |
| Advances, prepayments and other receivables | 3 811 | 3 540 |
| Cash and cash equivalents | 20 635 | 16 032 |
| Total current assets | 59 972 | 51 903 |
| TOTAL ASSETS | 181 203 | 169 356 |
| EQUITY AND LIABILITIES | | |
| Equity | 63 085 | 48 239 |
| Liabilities | | |
| Non-current liabilities | 86 246 | 93 915 |
| Current liabilities | 31 872 | 27 202 |
| TOTAL EQUITY AND LIABILITIES | 181 203 | 169 356 |





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