

**RESOLUTION NO. 80/X/2017
OF THE SUPERVISORY BOARD OF GRUPA AZOTY S.A.
of May 29th 2017**

**concerning Report of the Supervisory Board on assessment of the financial statements of
Grupa Azoty S.A. for the 12 months ended December 31st 2016 and of the
Management Board's proposal on distribution of profit for 2016**

Acting pursuant to Art. 33.1.6–8 in conjunction with Art. 51.26 of the Company's Articles of Association, the Supervisory Board resolves as follows:

Section 1

The Supervisory Board approves the Report of the Supervisory Board of Grupa Azoty S.A. for the Annual General Meeting on assessment of:

- the financial statements of Grupa Azoty S.A. for the 12 months ended December 31st 2016, and
 - the Management Board's proposal on distribution of profit for 2016,
- as set out in the appendix hereto.

Section 2

The Supervisory Board requests that the Annual General Meeting consider the submitted Report.

Section 3

This Resolution shall become effective as of its date.

This Resolution has been passed by open ballot, in the presence of nine Supervisory Board Members.

Votes in favour: 9

Abstentions: 0

Votes against: 0.

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Marek Grzelaczyk /Chairman of
the Supervisory Board/

.....
Tomasz Karusewicz
/Deputy Chairman of the
Supervisory Board/

.....
Zbigniew Paprocki
/Secretary of the Supervisory
Board/

.....
Monika Fill

.....
Robert Kapka

.....
Artur Kucharski

.....
Bartłomiej Litwińczuk

.....
Ireneusz Purgacz

.....
Roman Romaniszyn

REPORT
of the Supervisory Board of Grupa Azoty S.A. for the Annual General Meeting
on the assessment of the separate financial statements of Grupa Azoty S.A.
for the 12 months ended December 31st 2016
and the Management Board's proposal on the distribution of net profit for 2016

I.

Our assessment covered the financial statements comprising:

- Separate statement of financial position as at December 31st 2016, showing total assets and total equity and liabilities of PLN 6,443,256 thousand,
- Separate statement of profit or loss and other comprehensive income for the period January 1st–December 31st 2016, showing a net profit of PLN 224,775 thousand, as well as negative other comprehensive income totalling PLN (7,085) thousand. Profit and loss and other comprehensive income amount to PLN 217,690 thousand.
- Separate statement of changes in equity for the financial year January 1st–December 31st 2016, showing an increase in equity of PLN 134,366 thousand,
- Separate statement of cash flows for the period January 1st–December 31st 2016, showing an increase in cash of PLN 214,089 thousand,
- Notes to the separate financial statements.

The separate financial statements of Grupa Azoty S.A. for the financial year 2016 contain:

- general information on the Company's organisational structure,
- significant accounting policies,
- notes to the separate financial statements.

The comparative data for 2015 was restated to improve the presentation of information on the effect of certain transactions on the Company's assets and financial position. For detailed information on the restatement, see Note 2.3 to the separate financial statements of Grupa Azoty S.A.

Presented below are the key 2016 financials along with the comparative data for 2015 (all figures in PLN '000):

1. Key financial data

	2016	2015	2016/2015 change	2016/2015 change (%)
Revenue	1,552,332	1,768,984	(216,652)	(12.2)
Cost of sales	(1,305,013)	(1,482,315)	177,302	(12.0)
Gross profit	247,319	286,669	(39,350)	(13.7)
Net profit	224,775	209,055	15,720	7.5

EBIT	(29,179)	4,355	(33,534)	(770.0)
EBITDA	64,858	95,496	(30,638)	(32.1)

With revenue down 12.2% year on year and lower cost of sales (down by 12.0%), the Group reported gross profit on sales of PLN 247,319 thousand.

Despite lower selling and distribution expenses, lower operating loss and only a slight increase in administrative expenses, the Group posted an operating loss. Finance income, which comprised mainly received dividends, ultimately contributed to the profit before tax.

2. Revenue

The Group's profit on sales of products in 2016 was driven primarily by the market situation in the Agro Fertilizers and Plastics segments. Compared with the previous year, revenue decreased across all segments.

Revenue by segment (sum of revenue from inter-segment sales and external sales, PLN '000):

Segment	2016	2015	2016/2015 change	2016/2015 change (%)
Agro Fertilizers	934,627	1,059,903	(125,276)	(11.8)
Plastics	1,053,091	1,129,351	(76,260)	(6.7)
Energy	440,138	476,579	(36,441)	(7.6)
Other	53,697	66,943	(13,246)	(19.8)
Total	2,481,553	2,732,776	(251,223)	(9.19)

3. Financial ratios

Profitability ratios

	2016	2015
Gross margin	15.9%	16.2%
EBIT margin	(1.9)%	0.2%
EBITDA margin	4.2%	5.4%
Net margin	14.5%	11.8%
ROA	3.5%	3.6%
ROCE	(0.5)%	0.1%
ROE	5.0%	4.8%
Return on non-current assets	4.0%	4.0%

Liquidity ratios

	2016	2015
Current ratio	1.3	1.4
Quick ratio	1.0	1.0
Cash ratio	0.6	0.8

As a result of changes in current assets and liabilities, as at December 31st 2016 working capital stood at PLN 167,158 thousand.

Operational efficiency ratios

	2016	2015
Inventory turnover	47	46
Average collection period	53	51
Average payment period	74	79
Cash conversion cycle	25	18

Debt ratios

	2016	2015
Total debt ratio	29.9%	25.2%
Long-term debt ratio	19.9%	17.8%
Short-term debt ratio	10.0%	7.3%
Equity-to-debt ratio	234.5%	297.4%
Interest cover ratio	904.4%	792.1%

4. Structure of assets, equity and liabilities

In 2016, the parent's assets increased to PLN 6,443,256 thousand, i.e. by PLN 586,631 thousand relative to the end of 2015.

As at December 31st 2016, non-current assets were PLN 5,632,399 thousand, and current assets were PLN 810,857 thousand.

The most significant movements in assets in 2016 against 2015 included:

- a 29.7% increase in property, plant and equipment,
- a 12.0% increase in other financial assets,
- a 191.2% increase in cash and cash equivalents,
- a 9.3% decrease in inventories,
- a 10.3% decrease in trade receivables.

The most material changes in equity and liabilities in the reporting period were:

- a 3.1% increase in the parent's equity,
- a 22.9% increase in non-current liabilities,
- a 24.7% increase in non-current liabilities under borrowings,
- a 16.8% decrease in trade and other payables,
- a 527.8% increase in current liabilities under borrowings.

II.

SUPERVISORY BOARD'S OPINION ON THE MANAGEMENT BOARD'S PROPOSAL ON DISTRIBUTION OF NET PROFIT FOR 2016

The Supervisory Board approves the proposal of the Management Board to the Annual General Meeting (adopted by the Management Board Resolution No. 736/X/2017 of May 25th 2017) that the 2016 net profit of **PLN 224,775,178.67** (two hundred and twenty-four million, seven hundred and seventy-five thousand, one hundred and seventy-eight zloty, 67/100) be distributed as follows:

- PLN 78,364,432.36, i.e. PLN 0.79 per share as dividend to the Shareholders;
- PLN 146,410,746.31 to be transferred to the statutory reserve funds.

SUMMARY

Having analysed the submitted financial statements and having read the auditor's opinion

and report on the audit of the 2016 financial statements as well as the Audit Committee's opinion, the Supervisory Board is satisfied that the full-year separate financial statements for the twelve months ended December 31st 2016 have been prepared in accordance with the International Financial Reporting Standards endorsed by the European Union, in accordance with the laws which must be reflected in the contents of the separate financial statements and in accordance with the Company's Articles of Association; that they have been prepared on the basis of accounting records which are, in all material respects, properly maintained; and that they give a clear and fair view of the Company's assets and financial condition as at December 31st 2016 and of its profit or loss and cash flows for the financial year January 1st–December 31st 2016.

The Supervisory Board proposes that the General Meeting approve the financial statements of Grupa Azoty S.A. for 2016.

Signatures of members of the Supervisory Board of Grupa Azoty S.A.

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Marek Grzelaczyk - Chairman of
the Supervisory Board

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Tomasz Karusewicz
/Deputy Chairman of the
Supervisory Board/

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Zbigniew Paprocki
/Secretary of the Supervisory
Board/

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Monika Fill

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Robert Kapka

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Artur Kucharski

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Bartłomiej Litwińczuk

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Ireneusz Purgacz

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Roman Romaniszyn

