

**RESOLUTION NO. 81/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 consolidated financial statements of the Grupa Azoty Group for the 12 months ended December 31st 2016**

Acting pursuant to Art. 33.1.9 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 for the Annual General Meeting on assessment of the consolidated financial statements of the Grupa Azoty Group for the 12 months ended December 31st 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

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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 consolidated financial statements**  
**of the Grupa Azoty Group**  
**for the 12 months ended December 31st 2016**

Our assessment covered the Group's consolidated financial statements, comprising:

1. Consolidated statement of financial position as at December 31st 2016, showing total assets and total equity and liabilities of PLN 11,051,920 thousand,
2. Consolidated statement of profit or loss and other comprehensive income for the period January 1st–December 31st 2016, showing a net profit of PLN 375,152 thousand, as well as negative other comprehensive income totalling PLN (14,363) thousand, Profit and loss and other comprehensive income amount to PLN 360,789 thousand.
3. Consolidated statement of changes in equity for the financial year January 1st–December 31st 2016, showing an increase in equity of PLN 217,817 thousand,
4. Consolidated statement of cash flows for the period January 1st–December 31st 2016, showing a decrease in cash of PLN (111,433) thousand,
5. Notes to the consolidated financial statements.

The consolidated financial statements of the Grupa Azoty Group for the financial year 2016 contain:

- information about the Grupa Azoty Group, including its organisational structure,
- significant accounting policies,
- notes to the consolidated financial statements.

The consolidated financial statements have been prepared for the Grupa Azoty Group (the "Grupa Azoty Group" or the "Group"), which as at December 31st 2016 comprised Grupa Azoty S.A. (the "Parent") and the following nine subsidiaries:

- Grupa Azoty Zakłady Azotowe Puławy S.A. ("Grupa Azoty PUŁAWY"), which is the parent of its own group of nine subsidiaries and holds ownership interests in three associates,
- Grupa Azoty Zakłady Azotowe Kędzierzyn S.A. ("Grupa Azoty ZAK S.A."), which is the parent of one subsidiary and holds ownership interests in two associates,
- Grupa Azoty Zakłady Chemiczne Police S.A. ("Grupa Azoty POLICE"), which is the parent of its own group of nine subsidiaries and holds ownership interests in two associates,
- Grupa Azoty Polskie Konsorcjum Chemiczne Sp. z o.o. ("Grupa Azoty PKCh Sp. z o.o."), which is the parent of its own group of three subsidiaries,
- Grupa Azoty ATT Polymers GmbH,
- Grupa Azoty Kopalnie i Zakłady Chemiczne Siarki Siarkopol S.A. ("Grupa Azoty SIARKOPOL"),
- Grupa Azoty Koltar Sp. z o.o.,
- Grupa Azoty Folie Sp. z o.o.,
- Grupa Azoty Compounding Sp. z o.o.

The comparative data for 2015 was restated in accordance with the information presented in Note 2.3 to the consolidated financial statements.

Presented below are the 2016 financial highlights along with the comparative data for 2015:

### 1. Key financial data

	2016	2015	2016/2015 change	2016/2015 change (%)
PLN '000				
Revenue	8,955,690	10,007,896	(1,052,206)	(10.5)
Cost of sales	(6,997,921)	(7,741,978)	744,057	(9.6)
Gross profit	1,957,769	2,265,918	(308,149)	(13.6)
Net profit	375,152	678,219	(303,067)	(44.7)
EBIT	486,062	824,405	(338,343)	(41.0)
EBITDA	1,005,783	1,309,215	(303,432)	(23.2)

With revenue down 10.5% year on year and lower cost of sales (down by 9.6%), the Grupa Azoty Group reported a PLN 308,149 thousand year-on-year decrease in gross profit.

### 2. Revenue

The table below presents revenue for the Group's individual segments (sum of revenue from inter-segment sales and external sales, PLN '000).

Segment	2016	2015	2016/2015 change	2016/2015 change (%)
Agro Fertilizers	6,917,924	8,248,761	(1,330,837)	(16.1)
Plastics	1,432,677	1,556,961	(124,284)	(7.98)
Chemicals	3,113,111	3,294,978	(181,867)	(5.5)
Energy	2,554,798	2,922,141	(367,343)	(12.6)
Other	1,082,008	1,093,814	(11,806)	(1.08)
Total	15,100,518	17,116,655	(2,032,646)	(11.8)

### 3. Financial ratios

<i>Profitability ratios</i>	2016	2015
Gross margin	21.9%	22.6%
EBIT margin	5.4%	8.2%
EBITDA margin	11.2%	13.1%
Net margin	4.2%	6.8%
ROA	3.4%	6.5%

ROCE	5.3%	9.5%
ROE	5.3%	9.8%
Return on non-current assets	4.9%	9.8%

<b><i>Liquidity ratios</i></b>	<b>2016</b>	<b>2015</b>
Current ratio	1.8	1.9
Quick ratio	1.4	1.4
Cash ratio	0.7	0.7

<b><i>Operational efficiency ratios</i></b>	<b>2016</b>	<b>2015</b>
Inventory turnover	44	45
Average collection period	43	39
Average payment period	83	73
Cash conversion cycle	5	11

<b><i>Debt ratios</i></b>	<b>2016</b>	<b>2015</b>
Total debt ratio	35.5%	34.1%
Long-term debt ratio	18.8%	16.5%
Short-term debt ratio	16.7%	17.7%
Equity-to-debt ratio	181.7%	192.9%
Interest cover ratio	1,441.2%	2,144.1%

#### **4. Structure of assets, equity and liabilities**

In 2016, the Group's assets (as well as equity and liabilities) rose to PLN 11,051,920 thousand, by PLN 556,846 thousand relative to the end of 2015.

As at December 31st 2016, non-current assets were PLN 7,651,480 thousand, and current assets were PLN 3,400,440 thousand.

Year on year, the most significant movements in assets in 2016 included:

- a 12.8% increase in property, plant and equipment,
- an 18.6% increase in other financial assets,
- a 14.0% increase in investment property,
- a 14.8% decrease in cash and cash equivalents,
- a 10.5% decrease in inventories.

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

- a 20.0% increase in non-current liabilities,
- a 31.0% increase in non-current liabilities under borrowings,
- a 56.2% decrease in current liabilities under borrowings.

## SUMMARY

Having analysed the consolidated financial statements and having read the auditor's opinion and report on the audit of the 2016 consolidated financial statements, as well as the Audit Committee's opinion, the Supervisory Board is satisfied that the full-year consolidated financial statements for the twelve months ended December 31st 2016 have been prepared, in all material respects, in accordance with the International Financial Reporting Standards endorsed by the European Union and in compliance with the laws applicable to the Group which must be reflected in the contents of the consolidated financial statements.

The financial statements give a clear and fair view of the Group's assets and financial position as at December 31st 2016, and of its profit or loss and cash flows in the financial year ended December 31st 2016.

In view of the above, the Supervisory Board requests the General Meeting to approve the financial statements of the Grupa Azoty Group for the financial year 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