

**RESOLUTION NO. 85/X/2017  
OF THE SUPERVISORY BOARD OF GRUPA AZOTY S.A.  
of May 29th 2017**

**concerning Report of the Supervisory Board on the activities of the Supervisory Board and its committees and on the assessment of the work of the Management Board in the period January 1st–December 31st 2016**

Acting pursuant to Art. 33.1.21 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 for the Annual General Meeting on the activities of the Supervisory Board and its committees and on the assessment of the work of the Management Board in the period January 1st–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.

.....  
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 activities of the Supervisory Board**  
**for the period January 1st-December 31st 2016**  
**including the activities of the Supervisory Board Committees**  
**and assessment of the work of the Management Board**

**1.**

***Term of office and year of the term***

2016 was the first year of the Supervisory Board's 10th term of office (started on July 5th 2016).

**2.**

***Composition of the Supervisory Board, positions held on the Supervisory Board, and changes in the Supervisory Board composition in the financial year***

Composition of the Supervisory Board as at January 1st 2016:

1. Monika Kacprzyk-Wojdyga - Chairwoman,
2. Jacek Obłəkowski - Deputy Chairman,
3. Robert Kapka - Member,
4. Tomasz Klikowicz - Member,
5. Artur Kucharski - Member,
6. Przemysław Lis - Member,
7. Marek Mroczkowski - Member,
8. Zbigniew Paprocki - Member,
9. Ryszard Trepczyński - Member.

At the meeting held on January 15th 2016, the Supervisory Board appointed Mr Zbigniew Paprocki as Secretary of the Supervisory Board.

On January 29th 2016, by way of a letter from the Minister of State Treasury, Mr Przemysław Lis was removed from the Supervisory Board, and Mr Marek Grzelaczyk was appointed in his place.

On February 1st 2016, by way of resolutions of the Company's Extraordinary General Meeting, Ms Monika Kacprzyk-Wojdyga and Messrs Marek Mroczkowski, Jacek Obłəkowski and Ryszard Trepczyński were removed from the Company's Supervisory Board, while Messrs Maciej Baranowski, Tomasz Karusewicz, Przemysław Lis and Bartłomiej Litwińczuk were appointed as new members (Mr Przemysław Lis was appointed as Chairman of the Supervisory Board).

On February 19th 2016, the Supervisory Board appointed Marek Grzelaczyk as Deputy Chairman of the Supervisory Board of the 9th term of office.

On March 31st 2016, Mr Marek Grzelaczyk tendered his resignation as Deputy Chairman. At its meeting held on April 15th 2016, the Supervisory Board appointed Mr Tomasz Karusewicz as Deputy Chairman.

As a result of the above changes, in April 15th-July 4th 2016 the composition of the Supervisory Board was as follows:

1. Przemysław Lis - Chairman,
2. Tomasz Karusewicz - Deputy Chairman,
3. Zbigniew Paprocki - Secretary,
4. Maciej Baranowski - Member,
5. Marek Grzelaczyk - Member,
6. Robert Kapka - Member,
7. Tomasz Klikowicz - Member,
8. Artur Kucharski - Member,
9. Bartłomiej Litwińczuk - Member.

As the ninth term of office of the Supervisory Board expired, the Company held elections of candidates to the Grupa Azoty S.A. Supervisory Board of the 10th term, nominated by employees. The election was held on March 11th–23rd 2016 (1st round) and March 30th–April 14th 2016 (2nd round).

The following persons were nominated to the Supervisory Board of the 10th term by the employees:

in the 1st round: Robert Kapka and Zbigniew Paprocki,  
in the 2nd round: Roman Romaniszyn.

Pursuant to resolutions of the Company's Annual General Meeting of July 5th 2016, the following persons were appointed members to the Supervisory Board of the 10th term:

1. Przemysław Lis - Chairman,
2. Maciej Baranowski,
3. Robert Kapka,
4. Tomasz Karusewicz,
5. Artur Kucharski,
6. Bartłomiej Litwińczuk,
7. Zbigniew Paprocki,
8. Roman Romaniszyn.

Acting pursuant to Art. 16.2 of the Articles of Association of Grupa Azoty S.A., the Minister of State Treasury, by letter of June 30th 2016, appointed Marek Grzelaczyk to the Company's Supervisory Board, with effect from July 5th 2016.

On July 18th 2016, the Supervisory Board elected Tomasz Karusewicz as its Deputy Chairman and Zbigniew Paprocki as its Secretary.

Following the above changes, from July 18th 2016 to December 2nd 2016 the composition of the Supervisory Board was as follows:

1. Przemysław Lis - Chairman,
2. Tomasz Karusewicz - Deputy Chairman,
3. Zbigniew Paprocki - Secretary,
4. Maciej Baranowski - Member,
5. Marek Grzelaczyk - Member,
6. Robert Kapka - Member,

7. Artur Kucharski - Member,
8. Bartłomiej Litwińczuk - Member,
9. Roman Romaniszyn - Member.

On December 2nd 2016, by way of resolutions of the Company's Extraordinary General Meeting, Przemysław Lis and Maciej Baranowski were removed from the Supervisory Board, while Monika Fill and Ireneusz Purgacz were appointed as new members of the Supervisory Board. The Extraordinary General Meeting also appointed Marek Grzelaczyk as Chairman of the Supervisory Board.

As a result of the above changes, from December 2nd 2016 to the date of this report the composition of the Supervisory Board was as follows:

1. Marek Grzelaczyk - Chairman,
2. Tomasz Karusewicz - Deputy Chairman,
3. Zbigniew Paprocki - Secretary,
4. Monika Fill - Member,
5. Robert Kapka - Member,
6. Artur Kucharski - Member,
7. Bartłomiej Litwińczuk - Member,
8. Ireneusz Purgacz - Member,
9. Roman Romaniszyn - Member.

### 3.

#### ***Number and frequency of meetings held by the Supervisory Board; number of adopted resolutions***

In the financial year 2016, the Supervisory Board held 12 meetings and five voting procedures using means of remote communication, and passed 86 resolutions.

Resolutions adopted by the Supervisory Board in 2016:

Resolution No.	Date	Subject matter
208/IX/2016	2016-01-15	Election of the Secretary of the Supervisory Board of the 9th term of office [Zbigniew Paprocki]
209/IX/2016	2016-01-15	Approval of the Rules for Election of Supervisory Board Candidates and Removal of Supervisory Board Members Elected by the Employees of Grupa Azoty S.A.
210/IX/2016	2016-01-15	Consent to donation of an ultrasound machine
211/IX/2016	2016-02-19	Election of Deputy Chair of the Supervisory Board of the 9th term of office [Marek Grzelaczyk]
212/IX/2016	2016-02-19	Filling the vacancy on the Audit Committee [Tomasz Karusewicz]
213/IX/2016	2016-02-19	Filling the vacancy on the Audit Committee [Maciej Baranowski]
214/IX/2016	2016-02-19	Appointment of Chairman of the Audit Committee [Tomasz Karusewicz]
215/IX/2016	2016-02-19	Grant of consent to acquire CO2 emission allowances
216/IX/2016	2016-02-19	Consent to donation of laboratory equipment

Resolution No.	Date	Subject matter
217/IX/2016	2016-02-19	Amendment of Resolution No. 126/IX/2015 of January 9th 2015 to determine the number of members of the Company's Management Board
218/IX/2016	2016-02-19	Removal of Management Board Member acting as President of Management Board
219/IX/2016	2016-02-19	Removal of Vice President of the Management Board [Krzysztof Jatosiński]
220/IX/2016	2016-02-19	Removal of Vice President of the Management Board [Marek Kapłucha]
221/IX/2016	2016-02-19	Removal of Vice President of the Management Board [Marian Rybak]
222/IX/2016	2016-02-19	Appointment of President of the Management Board of Grupa Azoty S.A. [Mariusz Bober]
223/IX/2016	2016-02-19	Setting the date and time of election of Supervisory Board member candidates elected by Company employees for the Supervisory Board of the 10th term of office
224/IX/2016	2016-02-19	Appointment of the Main Election Committee to hold the election of Supervisory Board member candidates elected by Company employees for the Supervisory Board of the 10th term of office
225/IX/2016	2016-02-19	Appointment of Chairman of the Audit Committee [Artur Kucharski]
226/IX/2016	2016-03-14	changes in the composition of the Audit Committee [delegation of Marek Grzelaczyk]
227/IX/2016	2016-03-14	changes in the composition of the Audit Committee [removal of Tomasz Karusewicz]
228/IX/2016	2016-03-14	Appointment of Member of the Management Board of Grupa Azoty S.A. [Józef Rojek]
229/IX/2016	2016-03-14	Appointment of Member of the Management Board of Grupa Azoty S.A. [Tomasz Hinc]
230/IX/2016	2016-03-14	Definition of the terms of employment and amounts of remuneration for members of the Grupa Azoty S.A. Management Board
231/IX/2016	2016-03-18	Delegating the Chair of the Supervisory Board to conclude employment contracts and non-competition agreements with Members of the Management Board
232/IX/2016	2016-04-15	Justification of absence of Tomasz Klikowicz, Member of the Supervisory Board
233/IX/2016	2016-04-15	Election of Deputy Chair of the Supervisory Board of the 9th term of office [Tomasz Karusewicz]
234/IX/2016	2016-04-15	Approval of Grupa Azoty S.A.'s budget for 2016
235/IX/2016	2016-04-15	Grant of consent to acquire non-current assets under the 'Upgrade of the condensation system in central cooling unit No. 6' project
236/IX/2016	2016-04-15	Grant of consent for Mr Mariusz Bober, President of the Company's Management Board, to serve as acting President of the Management Board of Grupa Azoty Zakłady Azotowe Puławy S.A.

Resolution No.	Date	Subject matter
237/IX/2016	2016-04-15	Grant of consent to provide financial assistance to the Ignacy Mościcki Foundation at the Ignacy Mościcki Technical School Complex in Tarnów-Mościce
238/IX/2016	2016-04-15	Delegating the Chair of the Supervisory Board to sign annexes to employment contracts and non-competition agreements with Members of the Management Board
239/IX/2016	2016-04-21	Delegating the Chair of the Supervisory Board to conclude employment contracts and non-competition agreements with Members of the Management Board
240/IX/2016	2016-05-20	Approval of the results of election of candidates for Supervisory Board members elected from among candidates nominated by Company employees
241/IX/2016	2016-05-20	Grant of consent to acquire non-current assets under the project 'Heat recovery from the Beckmann rearrangement process - Phase 2'
242/IX/2016	2016-05-20	Grant of consent to acquire non-current assets as part of the project 'Construction of new draft cooling tower in N2 cooling unit'
243/IX/2016	2016-05-20	Assessment of the separate financial statements of Grupa Azoty S.A. for the financial year 2015
244/IX/2016	2016-05-20	Assessment of the Directors' Report on the Company's operations in 2015
245/IX/2016	2016-05-20	Opinion on the Management Board's proposal on the distribution of net profit for 2015
246/IX/2016	2016-05-20	Supervisory Board's 2015 report for the Annual General Meeting prepared in accordance with Art. 33.1.20 of the Company's Articles of Association
247/IX/2016	2016-05-20	Approval of the report on the operations of the Supervisory Board's Audit Committee
248/IX/2016	2016-05-20	Supervisory Board's 2015 report for the Annual General Meeting prepared in accordance with Art. 33.1.21 of the Company's Articles of Association
249/IX/2016	2016-05-20	Supervisory Board's 2015 report for the Annual General Meeting prepared in accordance with Art. 33.1.22 of the Company's Articles of Association
250/IX/2016	2016-05-20	Supervisory Board's report for the Annual General Meeting of Grupa Azoty S.A. on assessment of reasonableness of the Company's sponsorship, charitable and similar initiatives in the period January 1st 2015 - December 31st 2015
251/IX/2016	2016-05-20	Removal of the Vice President of the Management Board [Andrzej Skolmowski]
252/IX/2016	2016-05-20	Appointment of Vice President of the Management Board of Grupa Azoty S.A. [Tomasz Hinc]
253/IX/2016	2016-05-20	Appointment of Vice President of the Management Board of Grupa Azoty S.A. [Józef Rojek]
254/IX/2016	2016-05-20	Appointment of Vice President of the Management Board of Grupa Azoty S.A. [Paweł Łapiński]

Resolution No.	Date	Subject matter
255/IX/2016	2016-05-20	Delegating the Chair of the Supervisory Board to conclude employment contracts and non-competition agreements with Members of the Management Board
256/IX/2016	2016-05-20	Delegating the Chair of the Supervisory Board to conclude non-competition agreements with Members of the Management Board
257/IX/2016	2016-05-20	Determining the duration of adjournment of a Supervisory Board meeting
258/IX/2016	2016-06-03	Supervisory Board's report on assessment of the financial statements of Grupa Azoty S.A. for the period January 1st-December 31st 2015 and the Directors' Report on the Company's operations in 2015
259/IX/2016	2016-06-03	Assessment of the consolidated financial statements of the Grupa Azoty Group and the Directors' Report on the Group's operations in 2015
260/IX/2016	2016-06-03	Supervisory Board's report on assessment of the consolidated financial statements of the Grupa Azoty Group for the period January 1st-December 31st 2015 and the Directors' Report on the Group's operations in 2015
261/IX/2016	2016-06-03	Grant of discharge to Mr Witold Szczypiński, Vice President of the Management Board of Grupa Azoty S.A., in respect of performance of his duties in the period January 1st-December 31st 2015
262/IX/2016	2016-06-03	Grant of discharge to Mr Artur Kopeć, Member of the Management Board of Grupa Azoty S.A., in respect of performance of his duties in the period January 1st-February 20th 2015 and February 26th-December 31st 2015
263/IX/2016	2016-07-04	Justification of absence of Robert Kapka, Member of the Supervisory Board
264/IX/2016	2016-07-04	Assessment of the consolidated financial statements of the Grupa Azoty Group and the Directors' Report on the Group's operations in 2015
265/IX/2016	2016-07-04	Grant of discharge to Mr Marek Kapłucha, Vice President of the Management Board of Grupa Azoty S.A., in respect of performance of his duties in the period January 1st-December 31st 2015
266/IX/2016	2016-07-04	Grant of discharge to Mr Marian Rybak, Vice President of the Management Board of Grupa Azoty S.A., in respect of performance of his duties in the period January 1st-December 31st 2015
1/X/2016	2016-07-18	Election of Deputy Chair of the Supervisory Board of the 10th term of office [Tomasz Karusewicz]
2/X/2016	2016-07-18	Election of the Secretary of the Supervisory Board of the 10th term of office [Zbigniew Paprocki]
3/X/2016	2016-07-18	Appointment of Chairman of the Audit Committee [Artur Kucharski]
4/X/2016	2016-07-18	Delegation to the Audit Committee [Robert Kapka]
5/X/2016	2016-07-18	Delegation to the Audit Committee [Marek Grzelaczyk]
6/X/2016	2016-07-18	Delegation to the Audit Committee [Maciej Baranowski]
7/X/2016	2016-08-01	Grant of consent for Grupa Azoty Spółka Akcyjna (the "Company") to enter into certain agreements or to amend existing agreements (and to sign related documentation) to ensure liquidity and

Resolution No.	Date	Subject matter
		financing of the general corporate needs of the Company and the companies of its group (the "Group") , as well as to sign annexes to such agreements and documentation in the future
8/X/2016	2016-08-01	Grant of consent to acquire non-current assets under the project 'Utilisation of purge gases from the ammonia synthesis unit'
9/X/2016	2016-08-01	Consent to the establishment and co-financing of the Polish National Foundation by the Company
10/X/2016	2016-08-01	Assessment of implementation of the objectives set forth in the MBO Sheet and determination of the annual bonus for 2015 for Mr Witold Szczypiński
11/X/2016	2016-08-01	Assessment of implementation of the objectives set forth in the MBO Sheet and determination of the annual bonus for 2015 for Mr Marek Kapłucha
12/X/2016	2016-08-01	Assessment of implementation of the objectives set forth in the MBO Sheet and determination of the annual bonus for 2015 for Mr Marian Rybak
13/X/2016	2016-08-01	Assessment of implementation of the objectives set forth in the MBO Sheet and determination of the annual bonus for 2015 for Mr Artur Kopec
14/X/2016	2016-08-01	Approval of the MBO Sheets for members of the Company's Management Board for 2016
15/X/2016	2016-09-02	Grant of consent to acquire non-current assets under the 'Construction of Grupa Azoty's R&D Centre in Tarnów' project
16/X/2016	2016-09-02	Grant of consent for Grupa Azoty S.A. to incur a liability under a promissory note towards the Ministry of Development, in the form of a blank promissory note to secure a potential obligation to repay a grant received to co-finance the 'Construction of Grupa Azoty's R&D Centre in Tarnów' project
17/X/2016	2016-09-30	Delegating the Chair of the Supervisory Board to sign an annex to the employment contract with the President of the Management Board
18/X/2016	2016-09-30	Determining the manner in which shares in Grupa Azoty Kopalnie i Zakłady Chemiczne Siarki Siarkopol S.A. should be voted at its Extraordinary General Meeting in a vote on a squeeze-out of the company's shares under Art. 418 <sup>1</sup> of the Commercial Companies Code
19/X/2016	2016-09-30	Determining the manner in which shares in Grupa Azoty Zakłady Chemiczne Police S.A. should be voted at its Extraordinary General Meeting in a vote on disposal of the company's properties
20/X/2016	2016-11-04	Justification of absence of Mr Artur Kucharski, Member of the Supervisory Board
21/X/2016	2016-11-04	Grant of consent to acquire non-current assets under the 'K-67/2 sulfate lye storage' project
22/X/2016	2016-11-24	Grant of consent to the accession of Grupa Azoty S.A. to Towarzystwo Ubezpieczeń Wzajemnych PZUW
23/X/2016	2016-11-30	Equity investment by Grupa Azoty S.A. in PDH Polska S.A.
24/X/2016	2016-12-16	Delegation of Ms Monika Fill to the Audit Committee



Resolution No.	Date	Subject matter
25/X/2016	2016-12-16	Delegation of Mr Ireneusz Purgacz to the Audit Committee
26/X/2016	2016-12-16	Removal of Management Board Member acting as President of Management Board
27/X/2016	2016-12-16	Appointment of President of the Management Board of Grupa Azoty S.A.

#### 4.

#### ***Changes in the composition of the Management Board made by the Supervisory Board, suspension of Management Board members from duties, and delegation of Supervisory Board members to substitute for Management Board members.***

As at January 1st 2016, the composition of the Company's Management Board was as follows:

Paweł Jarczewski - President of the Management Board,  
 Krzysztof Jałosiński - Vice President of the Management Board,  
 Marek Kapłucha - Vice President of the Management Board,  
 Marian Rybak - Vice President of the Management Board,  
 Andrzej Skolmowski - Vice President of the Management Board,  
 Witold Szczypiński - Vice President of the Management Board,  
 Artur Kopeć - Member of the Management Board (elected by employees).

On February 19th 2016, the Supervisory Board passed resolutions on the following matters:

- setting the number of members of the Company's Management Board of the 10th term of office at from three to seven
- removing the following members of the Management Board:
  - Paweł Jarczewski, President of the Management Board,
  - Krzysztof Jałosiński, Vice President of the Management Board,
  - Marek Kapłucha, Vice President of the Management Board,
  - Marian Rybak, Vice President of the Management Board,
- appointing Mariusz Bober as President of the Management Board of Grupa Azoty S.A. of the tenth term of office.

On March 14th 2016, the Supervisory Board passed resolutions to appoint Józef Rojek and Tomasz Hinc as Members of the Management Board.

On May 20th 2016, the Supervisory Board passed the following resolutions:

- to remove Andrzej Skolmowski, holding the position of Vice President of the Management Board, from the Management Board;
- to appoint Tomasz Hinc and Józef Rojek as Vice Presidents of the Management Board,
- to appoint Mr Paweł Łapiński to as Vice President of the Management Board.

As a result of the above changes, in the period from May 20th 2016 to December 15th 2016, the composition of the Company's Management Board was as follows:

Mariusz Bober - President of the Management Board,  
 Witold Szczypiński - Vice President of the Management Board,  
 Paweł Łapiński - Vice President of the Management Board,  
 Józef Rojek - Vice President of the Management Board,  
 Tomasz Hinc - Vice President of the Management Board,

Artur Kopeć - Member of the Management Board.

On December 16th 2016, the Supervisory Board passed the following resolutions:

- to remove the Management Board Member acting as President of Management Board,
- to appoint Wojciech Wardacki as President of the Management Board.

As a result, in the period from December 16th 2016 to the date of this report, the composition of the Company's Management Board was as follows:

Wojciech Wardacki - President of the Management Board,  
Witold Szczypiński - Vice President of the Management Board,  
Paweł Łapiński - Vice President of the Management Board,  
Józef Rojek - Vice President of the Management Board,  
Tomasz Hinc - Vice President of the Management Board,  
Artur Kopeć - Member of the Management Board.

## 5.

### ***Execution of General Meeting resolutions pertaining to the activities of the Supervisory Board***

On December 2nd 2016, the General Meeting passed Resolution No. 8 on the rules of remuneration for the Management Board Members, obliging the Supervisory Board to ensure the conformity of the terms and conditions of management contracts concluded with Management Board Members for the period of such Members' appointment with the provisions of the Act on Rules of Remunerating Persons Who Manage Certain Companies of June 9th 2016 and with the aforementioned resolution of the General Meeting, including:

- to define the amounts of Fixed Remuneration for individual members of the Management Board,
- to define in detail the Management Objectives concerning, in particular, the Company's restructuring, value growth, improvement of its economic and financial ratios,
- to define the Weights for the Objectives as well as objective and measurable criteria (indicators) for assessing and accounting for their implementation (KPIs),
- to define prohibitions and restrictions (including an obligation for Management Board members to notify their intention to assume a position on a governing body of another company under commercial law and a prohibition on Management Board members to receive remuneration for holding positions on the governing bodies of the Company's subsidiaries included in the Company's group within the meaning of Art. 4.14 of the Competition and Consumer Protection Act of February 16th 2007),
- to define what technical equipment and resources owned by the Company, necessary for the member to perform their functions, will be made available to the Management Board member, the terms of providing the member with such technical equipment and resources, as well as the caps (or rules of defining the caps) on costs to be paid by the Company in connection with making such equipment and resources available to the Management Board member and their use in the performance of the member's professional duties,

In the performance of the above General Meeting resolution, at its meeting on February 6th 2017 the Supervisory Board passed resolutions:

- defining the terms of employment and remuneration of Management Board members;
- delegating the Chair of the Supervisory Board to terminate the present employment contracts and non-competition agreements when the Management Board members' employment with the Company ends,
- delegating the Chair of the Supervisory Board to conclude management contracts with the Management Board members for the duration of their appointment.

## 6.

### **Impact of pay increase on the Company's financial position**

The Supervisory Board monitored average monthly pay at the Company on an ongoing basis. In 2016, the average pay at the Company, net of annual bonuses for 2015 performance, stood at PLN 5,601.41, and was higher by PLN 419.05, i.e. 8.09%, year on year. Taking into account annual bonuses, the average monthly pay at the Company in 2016 was PLN 5,957.65, up PLN 414.09 compared with 2015. In 2016, pay rates were increased with effect as of January 1st 2016. As a result of the above, salaries and wages at the Company grew by 7.5%.

The rules of remuneration and payment of bonuses, including the award of annual bonuses, are set out in the Collective Bargaining Agreement.

## 7.

### Implementation of strategic or recovery plans

2015 saw continued implementation of the *Strategy of the Grupa Azoty Group for 2014-2020*, whose key objectives are:

- to deliver industry-leading returns to shareholders, and
- to maintain the Company's top-3 position in the European fertilizer market.

To achieve those objectives, three key action areas were identified:

- organic growth - to be achieved through implementation of corporate projects across the operating segments, including investment projects.
- operational excellence programme, through: seeking to achieve process improvements, implement efficient organisational structures and incentive schemes, enhance work efficiency and productivity, promote HR development, increase employee commitment, exchange experience, and explore innovative business solutions.
- efficiency enhancement, to be achieved through mergers and acquisitions.

As it was reasonable to update the Strategy in order to better adapt it to market conditions and to the Company's objectives, the Company appointed the Strategy Update Team (Circular No. 23/2016 of October 12th 2016; change of the team composition: Management Board Resolution No. 551/X/2017 of January 11th 2017; selection of PwC Polska Sp. z o.o. as an adviser to prepare the Strategy update: Management Board Resolution No. 500/X/2016 of November 25th 2016. The updated *Strategy of the Grupa Azoty Group for 2017-2020* was adopted by the Management Board on April 21st 2017 and approved by the Supervisory Board on April 27th 2017.

## 8.

### Supervisory Board's decisions on appointment of auditor, commissioning of expert reports, etc.

2016 was the last year in which the separate financial statements of Grupa Azoty S.A. and the consolidated financial statements of the Grupa Azoty Group were reviewed and audited by KPMG Audyt Sp. z o.o., appointed by the Supervisory Board in November 2014.

Therefore, following the execution by the Audit Committee of the procedure to select an auditor to audit the Company's and the Group's financial statements for the financial years 2017, 2018 and 2019, and based on the Audit Committee's recommendation, on March 28th 2017, the Supervisory Board passed a resolution to appoint Ernst & Young Audyt Polska Spółka z ograniczoną odpowiedzialnością sp. k. as the auditor to review and audit separate and consolidated financial statements for the financial years 2017, 2018 and 2019.

## 9.

### Powers and responsibilities of the Supervisory Board

Pursuant to Art. 33 of the Company's Articles of Association, the Supervisory Board's powers and responsibilities include:

- appointment and removal from office of Management Board members,
- determination of the rules and amounts of remuneration of Management Board members,
- suspension from duties, for a good reason, of individual or all Management Board

- members,
- delegation of Supervisory Board members to temporarily replace Management Board members who are unable to perform their duties,
  - Grant of consent for Management Board members to serve on governing bodies of other companies,
  - assessment of the Directors' Report on the Company's operations and the financial statements for the previous financial year for consistency with the accounting records, documents, and the actual state of affairs, assessment of the Management Board's proposals on the allocation of profit or coverage of loss, and submission of written reports on the results of the assessment to the General Meeting,
  - assessment of the Directors' Report on the Group's operations and the Group's consolidated financial statements for the previous financial year for consistency with the accounting records, documents, and the actual state of affairs, and submission of a written report on the results of the assessment to the General Meeting,
  - appointment of the auditor to perform the review and audit of the financial statements of the Company and the consolidated financial statements of the Group,
  - determination of the scope and submission dates of annual budgets as well as long-term strategic plans,
  - approval of the Company's long-term strategic plans,
  - approval of annual budgets including capital expenditure budgets,
  - adoption of detailed rules governing the Supervisory Board's operation,
  - adoption of the consolidated text of the Company's Articles of Association prepared by the Management Board,
  - approval of the rules of procedure for the Company's Management Board,
  - approval of the rules on donations,
  - giving opinions on all matters submitted by the Management Board for consideration to the General Meeting,
  - preparation of a report on the assessment of the Company's compliance with the adopted corporate governance standards in the reporting period, to be submitted to the Annual General Meeting,
  - preparation of a report on the activities of the Supervisory Board, including the activities of the Supervisory Board committees, and assessment of the work of the Management Board, to be submitted to the Annual General Meeting,
  - preparation of a report on the assessment of the Company's condition, including evaluation of its internal control and risk management systems, to be submitted to the Annual General Meeting.
  - granting authority to the Management Board for:
    - o acquisition of real property, perpetual usufruct right or interest in real property, with a market value of up to PLN 10,000,000 (ten million złoty),
    - o disposal or encumbrance with limited property rights of real property, perpetual usufruct right or interest in real property,
    - o acquisition of non-current assets other than real property, perpetual usufruct right or interest in real property, with a market value of more than PLN 2,000,000 (two million złoty),
    - o disposal or encumbrance with limited property rights of non-current assets other than real property, perpetual usufruct right or interest in real property, with a market value of more than PLN 2,000,000 (two million złoty),
    - o assumption of contingent liabilities, including issuance by the Company of financial guarantees and sureties, or assumption of liability for third-party debt, with a value exceeding PLN 2,000,000 (two million złoty),
    - o issue, acceptance, and grant of avals, and endorsement of promissory notes, with a value exceeding PLN 2,000,000 (two million złoty),
    - o contracting a loan and/or credit facility or issue of bonds, where the Company's outstanding debt under loans and borrowings including the

- proposed loan and/or credit facility would exceed PLN 40,000,000 (forty million złoty),
- assumption of any other liability or disposal of an asset, where the value of such liability or asset, either in a single transaction or a series of related transactions, excluding transactions falling within the scope of current operations or maintenance and investments included in the annual budgets for the current year, exceeds PLN 6,000,000 (six million złoty),
  - execution by the Company of an agreement concerning a donation or cancellation of debt with a value exceeding PLN 30,000 (thirty thousand złoty). If the total amount of donations granted or debts cancelled by the Company in a year exceeds PLN 500,000 (five hundred thousand złoty), any further donation or cancellation of debt above PLN 20,000 (twenty thousand złoty) requires approval of the Supervisory Board,
  - formation or co-financing by the Company of foundations or other organisations other than commercial-law companies,
  - formation of the Company's establishments, offices, branches or representative offices abroad,
  - exercising voting rights at the general meetings of companies in which the Company holds at least a 50% interest where the voting concerns any of the following issues:
    - amendments to the company's articles of association,
    - increase in or reduction of the company's share capital,
    - merger, transformation or demerger of the company,
    - disposal of the company shares,
    - disposal or lease of the company's business or its organised part, or establishment of limited property rights in the company's business or its organised part, or acquisition or disposal of real property, perpetual usufruct right or interest in real property, if the market value of the asset exceeds PLN 200,000 (two hundred thousand złoty),
    - dissolution and liquidation of the company,
  - establishment of another company or joining of another company by the Company,
  - execution of a material agreement with a related party, excluding standard agreements concluded on an arm's length basis in the ordinary course of business.

## Activities of the Audit Committee

In 2016, the Supervisory Board's Audit Committee consisted of:

In the period January 1st - January 31st 2016:

Jacek Obłəkowski (Chair)  
Marek Mroczkowski  
Tomasz Klikowicz

In the period February 19th - March 8th 2016:

Artur Kucharski (Chair)  
Maciej Baranowski  
Tomasz Karusewicz  
Tomasz Klikowicz

In the period March 14th - July 4th 2016:

Artur Kucharski (Chair)  
Maciej Baranowski  
Marek Grzelaczyk  
Tomasz Klikowicz

In the period July 5th - December 2nd 2016:

Artur Kucharski (Chair)  
Maciej Baranowski  
Marek Grzelaczyk  
Robert Kapka

In the period December 2nd - December 15th 2016:

Artur Kucharski (Chair)  
Marek Grzelaczyk  
Robert Kapka

In the period from December 16th 2016 to the date of this Report:

Artur Kucharski (Chair)  
Monika Fill  
Robert Kapka  
Ireneusz Purgacz

From the beginning of 2016 to the date of this *Report*, the Audit Committee held 11 meetings, on:

February 29th 2016,  
March 9th 2016,  
May 16th 2016,  
September 9th 2016,  
September 29th 2016,  
December 21st 2016,  
January 18th 2017,  
January 27th 2017,  
February 10th 2017,  
March 9th 2017,  
May 19th 2017.

The activities of the Audit Committee are presented in detail in the Audit Committee's Report, which is included in the records of the Supervisory Board.

The Audit Committee was involved in finalisation of the financial statements for 2016 and performed their assessment. The Audit Committee's recommendation for the Supervisory Board was to approve the Company's and the Group's financial statements for 2016.

## 11.

### **Assessment of the Supervisory Board Members' compliance with independence criteria:**

From among Supervisory Board Members active in 2016, the following submitted statements of independence:

- Artur Kucharski,
- Marek Mroczkowski,
- Jacek Obłąkowski,
- Przemysław Lis,
- Bartłomiej Litwińczuk,
- Marek Grzelaczyk,
- Monika Fill,
- Ireneusz Purgacz.

The remaining Supervisory Board Members did not satisfy the independence criteria because:

- during his term of service on the Supervisory Board of Grupa Azoty S.A., Maciej Baranowski had a contract with PDH Polska S.A., a subsidiary of GA Police (non-compliance with criterion b) as defined in Annex II to Commission Recommendation of February 15th 2005 on the role of non-executive or supervisory directors of listed companies and on the committees of the (supervisory) board) and, until January 2015, was an employee of Deloitte Polska Sp. z o.o. S.k. (non-compliance with criterion f) of Annex II);
- Robert Kapka, Tomasz Klikowicz, Zbigniew Paprocki and Roman Romaniszyn, representing employees of Grupa Azoty S.A. on the Supervisory Board, failed to satisfy criterion b) defined in Annex II to the Commission Recommendation;
- Tomasz Karusewicz, as a member of the Management Board of PZU Życie S.A., a PZU Group company, did not comply with the independence criteria set out in Principle II.Z.4 of Best Practice of GPW Listed Companies 2016, third sentence reading as follows: "A relationship with a shareholder precluding the independence of a member of the supervisory board as understood in this principle is an actual and significant relationship with any shareholder who holds at least 5% of the total vote in the company."
- A similar situation occurred when Bartłomiej Litwińczuk became member of the Management Board of PZU Życie S.A. on August 19th 2016. Since that date, he has not met the independence criteria set out in Principle II.Z.4 of Best Practice of GPW Listed Companies 2016.



## 12.

### Assessment of the work of the Management Board

The Supervisory Board issues a positive opinion on the Management Board's activities in 2016, including:

- management of the Company's day-to-day affairs,
- steps taken to implement the budget, including the investment plan,
- measures undertaken to update the long-term Strategy of the Grupa Azoty Group;
- leveraging the synergies from the Group's consolidation,
- cooperation with the Supervisory Board.

## 13.

### Self-assessment of the Supervisory Board

#### 1) Supervisory Board's activities

The Supervisory Board discharged its responsibilities provided for in the Company's Articles of Association, as well as requested the Management Board to present additional information and documents relating to the Company's day-to-day operations and the implementation of the Long-Term Strategy.

The Supervisory Board focused on matters with substantial impact on the financial and economic standing of the Company, including in particular:

- spending under the 2016 budget,
- key economic ratios,
- structure and amount of receivables and liabilities,
- structure and levels of inventories of raw materials, intermediate products and finished goods,
- assessment of investment activities,
- market situation with respect to raw material prices and sales of products,
- profitability of individual products,
- financial and economic standing of Grupa Azoty Group companies,
- impact of pay increase on the Company's financial position,
- synergies achieved in selected areas of the Group operations,
- implementation of measures under the *Grupa Azoty Group's Strategy for 2014–2020*,
- implementation of the Group's long-term financial model for 2014–2020,
- implementation of the Group's social and sponsorship policy,

In addition, the Supervisory Board examined and supervised:

- the implementation of individual objectives set forth in the Management Board members' MBO Sheets, designed to:
  - update the document "Update of the 'Strategy for the Grupa Azoty Group 2014–2020 – Operationalisation'" with particular emphasis on the target structure of the Group and its operations, potential acquisition targets, investments, financing and dividend policy, R&D integration;
  - develop the concept of controlling process in the AGRO segment, focused on maximising margins on the sales of the Group's products;
  - develop a detailed IT strategy for the Group;
  - implement strategic investment projects, improving the Group's profitability in the medium term, on schedule and within budget;
  - prepare a comprehensive design of procurement management at the Group;
  - implement a programme of measures to reduce the accident rate.
- spending on individual investment and research projects;

- structure and amount of fixed costs at the Grupa Azoty Group, including possibilities for their reduction;
- the Company's progress in preparing for the entry into force of the MAR Regulation, the MAD Directive and amendments to the Act on Public Offering, Conditions Governing the Introduction of Financial Instruments to Organised Trading, and Public Companies (implementing the Transparency II Directive), including in particular the progress of work on preparing and implementing a new reporting system, new analysis procedures and disclosure of information to the public;
- terms of employment contracts with Management Board members in light of the new legal regulations.

In 2016, the Supervisory Board exercised ongoing supervision over the Company's activities using the following materials:

- monthly, quarterly and half-year financial statements;
- the Company's 2016 budget and the Group's consolidated 2016 budget;
- *the Grupa Azoty Group's Strategy for 2014-2020 - Operationalisation*;
- reports on performance of strategic investment projects;
- the Management Board's information on initiatives and documents implemented at the Grupa Azoty Group, including:
  - credit risk management instruction at the Grupa Azoty Group,
  - inside information subject to current reporting,
  - ICT Strategy of the Grupa Azoty Group for 2017-2019,
- reports prepared by the Management Board on request by the Supervisory Board (the Group's expenditure on advertising, on cultural, social and charitable initiatives, PR consultancy and marketing services, advertising effectiveness; mechanisms for implementing the policies developed by the Parent at Group companies; material decisions at key companies of the Grupa Azoty Group, including the stearin sales contract between ZA Chorzów S.A. and Synthos; business and financial performance of AFRIG),
- source materials relevant to the matters reviewed by the Supervisory Board;
- information provided by the Management Board at Supervisory Board meetings,
- expert opinions requested from internal audit (ZA Chorzów's purchase of potassium sulfate from Amron in 2014, the terms of acquisition of Autozak Sp. z o.o. (subsidiary of Grupa Azoty ZAK) by Solidaris Sp. z o.o., audit of marketing and PR services contracting at the Group).

## **2) Contribution of individual Supervisory Board members, in particular its Chair, in the activities of the Board and its committees.**

In the Supervisory Board's assessment, all Board Members were involved in its activities, as confirmed by the high attendance at the Supervisory Board meetings (at the 12 meetings of the Board, as few as 3 absences were recorded and the Board found them justified). As part of his responsibilities, the Chair of the Supervisory Board:

- opened and closed Board meetings,
- initiated and moderated discussions on items included in the agenda of Supervisory Board meetings,
- ordered voting on individual resolutions, including by means of remote communication,
- invited guests to the Board meetings,
- approved contents of letters to the Management Board containing Supervisory Board's decisions and requests.

The members of the Supervisory Board actively participated in Board meetings, analysed documents and information submitted by the Management Board, asked questions and presented conclusions pertaining to various aspects of the Company's activities, including:

- the Group's economic and financial results versus market competition (Przemysław Lis, Maciej Baranowski, Artur Kucharski, Marek Grzelaczyk, Tomasz Karusewicz and Monika Fill);
- implementation and effectiveness of the sponsorship policy (Przemysław Lis, Artur Kucharski, Monika Fill, Ireneusz Purgacz and Zbigniew Paprocki);
- upgrade and investment projects provided for in the long-term strategy (Przemysław Lis, Robert Kapka, Tomasz Klikowicz, Zbigniew Paprocki, Marek Mroczkowski, Artur Kucharski and Bartłomiej Litwińczuk);
- procurement of key raw materials (Robert Kapka, Tomasz Klikowicz, Zbigniew Paprocki and Roman Romaniszyn);
- operation of risk management and internal audit areas (Artur Kucharski, Maciej Baranowski and Ireneusz Purgacz);
- adjusting the Company's internal regulations to MAR (Przemysław Lis, Maciej Baranowski, Bartłomiej Litwińczuk and Tomasz Karusewicz);
- expected implementation of EU regulations on the content of cadmium in phosphate fertilizers (Przemysław Lis, Maciej Baranowski, Tomasz Karusewicz and Bartłomiej Litwińczuk).

At its first meeting held on July 18th 2016, the Supervisory Board of the 10th term of office pointed to material issues requiring regular and in-depth analysis, including:

- the Supervisory Board's review of procedures related to the implementation of MAR;
- review of the "Grupa Azoty S.A.'s strategy for 2014–2020. Operationalisation";
- plan of introducing organisational changes with the ultimate goal of integrating the Group, with the corporate management centre at the Parent;
- development of a synthetic integrated financial strategy, covering in particular margin management, CAPEX, mergers and acquisitions, policy of rewarding the shareholder;
- level of litigation risk at the Group – court disputes etc.;
- insurance cover maintained by Grupa Azoty;
- matters concerning the Company's employees;
- implementation of strategic investment projects at Grupa Azoty;
- sponsorship – the current state, sponsorship policy, assessment of the Management Board's implementation of the Supervisory Board's sponsorship guidelines issued in 2015–2016;
- IT security, the need to standardise the Group companies' IT structure in terms of infrastructure and software management;
- intellectual property and its protection (scope of patent protection);
- unification of (procurement and other) procedures applicable at the Grupa Azoty Group;
- ongoing monitoring of the Group companies' position in view of deteriorating margins and prevailing market trends;
- review and update of the policy for core and non-core companies;
- development of an incentive system for the Management Board, including amendment of the Rules for payment of annual bonus to the Management Board.

The above matters were discussed at the meetings of the Supervisory Board and the Audit Committee.

Information on the activities of the Audit Committee is presented in section 10 above and in the Audit Committee's report submitted to the Supervisory Board.

### **3) Assessment of the manner of operation of the Supervisory Board, organisation of its meetings, and exercise of the right to delegate Board members to individually perform specific supervisory tasks**

In 2016, the Supervisory Board held 12 traditional meetings and 5 voting procedures using means of remote communication. Thus the frequency of meetings of the Supervisory Board was higher than required under Art. 38.1 of the Company's Articles of Association ("The

Supervisory Board shall meet at least once every two months”). The Supervisory Board meetings were most often held in Warsaw, where the majority of Board members and persons invited to Board meetings reside. Members of the Supervisory Board received notices of Board meetings and materials covered by the agenda within in due time enabling the members to analyse the documents and prepare to discuss the matters on the agenda. In 2016, the Supervisory Board did not delegate its members to individually perform specific supervisory tasks.

#### **4) Assessment of communication between the Supervisory Board and the Management Board**

In the opinion of the Supervisory Board, in the reporting period the communication between the Supervisory Board and the Management Board was correct. This assessment concerns the aspects of cooperation between the two bodies provided for in the Company’s Articles of Association and the Commercial Companies Code, i.e.:

- timely submission of materials related to the matters addressed at Supervisory Board meetings and completeness of such materials,
- submission of additional information and materials in accordance with decisions adopted at the Supervisory Board meetings,
- provision of current information on the Company’s operations.

#### **5) Assessment of competences of Supervisory Board members in the light of the profile and scale of the Company’s business.**

In 2016, the Supervisory Board was composed of persons holding university degrees in law, economics, finance, accounting, internal audit and control, engineering, including environmental engineering, chemical engineering, electrical and power engineering, English studies and sociology.

Moreover, most of the Board members completed post-graduate programmes in polymer chemistry and technology, management control, MBA, as well as specialist courses or trainings, including in power engineering, transport of hazardous materials, management, project management, disclosure requirements applicable to WSE-listed companies, brokerage courses, bankruptcy administrator courses, training in asset management strategy, risk management and corporate governance.

The majority of the Supervisory Board members have also passed the examination for candidates for supervisory boards of state-owned companies. Certain members of the Supervisory Board were released from the obligation to take the examination as they met the requirements set forth in the Regulation of the Polish Council of Ministers on training and examinations for candidates to the supervisory boards of companies wholly-owned by the State Treasury of September 7th 2004 (holding a PhD degree in law or economics, being officially registered as a legal counsel, attorney-at-law, qualified auditor, or investment adviser). Therefore, all members of the Supervisory Board meet the requirements of that Regulation.

Given their vast competences, professional experience, and commitment to the work of the Supervisory Board, members of the Supervisory Board supervised the Company’s operations properly and to a sufficient extent.

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

.....  
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