

**RESOLUTION NO. 166/IX/2015
OF THE SUPERVISORY BOARD OF GRUPA AZOTY S.A.
dated April 16th 2015**

concerning: the Supervisory Board's 2014 report for the Annual General Meeting, prepared in accordance with Art. 33.1.22 of the Company's Articles of Association

Acting pursuant to Art. 33.1.22 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 for the Annual General Meeting on the assessment of the Company's position in the period January 1st-December 31st 2014, including evaluation of its internal control and risk management systems', 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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Monika Kacprzyk-Wojdyga
/Chair of the
Supervisory Board/

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Jacek Obłękowski
/Deputy Chair of the
Supervisory Board/

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Ewa Lis
/Secretary of the
Supervisory Board/

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Robert Kapka

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Tomasz Klikowicz

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Artur Kucharski

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Marek Mroczkowski

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Zbigniew Paprocki

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Ryszard Trepczyński

**REPORT FOR THE ANNUAL GENERAL MEETING
FOR THE PERIOD JANUARY 1ST-DECEMBER 31ST 2014
ON THE ASSESSMENT OF THE COMPANY'S POSITION
AND ITS INTERNAL CONTROL
AND RISK MANAGEMENT SYSTEMS**

**I.
ASSESSMENT OF THE COMPANY'S POSITION**

The table below presents key 2014 financials along with comparative data for 2013 and the 2014 plan.

PLN '000	2014	2013	2013/2014 change	2014 plan	2014 actual vs. plan
Revenue	1,847,250	1,846,127	0.1 %	1,880,801	-1.8 %
EBIT	-29,243	-78,986	15.5 %	-13,497	-116.7 %
EBITDA	62,510	10,297	507.1%	89,082	-29.8 %
Net profit/(loss)*	214,633	44,117	386.5%	231,198	-7.2 %

A detailed assessment of the Company's position is included in the report of Grupa Azoty S.A.'s Supervisory Board on the assessment of the Company's separate financial statements for 2014 and the Directors' Report on the operations of Grupa Azoty S.A. in 2014.

**II
THE SUPERVISORY BOARD'S AUDIT COMMITTEE**

With a view to streamlining the operations of the Supervisory Board and strengthening the control of the Company and its Group, on July 7th 2013 the Supervisory Board appointed the Audit Committee as a collective advisory body within the structure of the Supervisory Board.

The Committee's duties include in particular:

- monitoring of the financial reporting process,
- monitoring of the effectiveness of internal control systems,
- monitoring of financial audit,
- monitoring of the independence of the auditor and the entity qualified to audit financial statements.

The detailed rules governing the operations of the Audit Committee are defined in the Rules of Procedure for the Audit Committee approved by the Company's Supervisory Board on July 4th 2013. Section 2.11 of the Rules of Procedure requires the Audit Committee to submit annual reports on its activities to the Supervisory Board.

III.

ASSESSMENT OF INTERNAL CONTROL AND RISK MANAGEMENT SYSTEMS

Internal control procedures

The internal control procedures are set out in the *Organisational Rules*, implemented under Internal Order No. 21/2014 of May 16th 2014 (*Section V.6 'Internal audit and control system'*), and in the *Internal Control Rules* (attached as an appendix to Internal Order No. 36/2005 of October 28th 2005).

Pursuant to the *Internal Control Rules*, internal control covers all aspects of the Company's activities – all functional and economic areas including technical, production-related, economic, financial, organisational, administrative, HR-related and other aspects of the operation of organisational units, and particularly matters referred to in employee complaints and observations by employees and by persons responsible for internal control.

By Internal Order No. 41/2011, an internal audit function was implemented across the Group in December 2011 by establishing the Internal Audit Office, a new organisational unit within the Company's structure which reports directly to the President of the Management Board.

Internal Order No. 13/2014 of March 17th 2014 served to implement the Grupa Azoty Group Internal Audit Standards, which define the remit of the individual internal audit units at the Group and rules for planning their work, as well as procedures for determining the subject matter of global audit tasks (i.e. tasks carried out at all Group companies) in Annual Audit Plans, procedures for conducting the global audit tasks, time limits for preparing periodic reports, and rules for monitoring and evaluating the progress in implementing audit recommendations.

The purpose of Internal Order No. 14/2014 of March 17th 2014 was to approve Grupa Azoty S.A. Internal Audit Rules, developed on the basis of the International Standards for the Professional Practice of Internal Auditing – IIA and rules contained in the document 'Exercise of ownership – corporate governance policy' and Grupa Azoty Group Internal Audit Standards. The Rules lay down audit procedures to be followed by the Corporate Internal Audit Office in carrying out audit tasks at Grupa Azoty S.A., including the methodology for planning, conducting and reporting audit tasks, and monitoring and evaluating the progress in implementing audit recommendations.

In August 2014, the Corporate Internal Audit Office submitted to the Audit Committee a report on the execution of audit-related tasks for the period January-June 2014, and in March 2015 – the annual report on the execution of audit-related tasks for the entire 2014.

In March 2015, the Internal Audit Office submitted to the Audit Committee the 2015 Annual Audit Plan and Grupa Azoty S.A. Long-Term Internal Audit Plan for 2015–2017.

Information Policy

On February 3rd 2012, in accordance with the provisions of the Personal Data Protection Act of August 29th 1997 (Dz.U. of 2002 No. 101, item 926, as amended) and the provisions of the Regulation of the Minister of Internal Affairs and Administration, dated April 29th 2004, on the documentation of personal data processing and technical and organisational conditions to be met by IT hardware and systems supporting personal data processing (Dz.U. of 2004, No. 100, item 1024), the Information Security Policy for the Grupa Azoty

Group (Internal Order No. 8/2012) and the related Rules of Procedure for Handling Information Security Incidents (appendix to Internal Order No. 53/2012) were adopted for use at the Company and the Grupa Azoty Group.

Also, a uniform disclosure and confidential information protection policy was implemented at the Grupa Azoty Group (Internal Order No. 43/2013 of October 21st 2013), while Grupa Azoty S.A. adopted 'Confidential information protection guidelines' (Internal Order No. 63/2013 of December 31st 2013).

Preparation of financial statements

The internal control system for the process of preparing the Company's financial statements is governed by the applicable procedures and internal orders (Internal Order No. 32/2013 dated September 4th 2013 - Accounting Policies Applicable at the Grupa Azoty Group and Grupa Azoty S.A. and Internal Order No. 5/2014 dated February 10th 2014 - Changes to Accounting Policies Applicable at the Grupa Azoty Group and Grupa Azoty S.A.). Financial statements are prepared by financial and accounting staff supervised by the Chief Accountant, and the final wording of the statements is approved by the Company's Management Board. Following the approval, financial statements are audited by an independent statutory auditor selected by the Company's Supervisory Board.

Financial risk management

The Company identifies the following financial risks:

- Credit risk
- Liquidity risk
- Currency risk
- Interest rate risk
- Risk of changes in prices of raw materials, products and services –
- Currency risk

For a detailed description of the risks and related preventive measures, see *Directors' Report on the operations of the Grupa Azoty Group for the twelve months ended December 31st 2014* (Section 5.12).

The financial risk management procedures are regulated by instructions attached to internal regulations No. 28/2012 (Currency risk management at the Group), No. 38/2012 (Credit risk management at the Group), and No. 40/2014 (Grupa Azoty Group Financial (Currency and Interest Rate) Risk Management Policy).

The Financial Risk Management Policy defines the objectives, procedures and responsibilities in managing financial risks at the Grupa Azoty Group. The Parent's Management Board is responsible for ensuring that the Financial Risk Management Policy is in line with the Group's strategic objectives. The Policy applies to the Parent, the Leading Companies (Grupa Azoty Zakłady Azotowe Kędzierzyn S.A., Grupa Azoty Zakłady Azotowe Puławy S.A., Grupa Azoty Zakłady Chemiczne Police S.A., Grupa Azoty Kopalnie i Zakłady Chemiczne Siarki Siarkopol S.A.) and their selected subsidiaries. The Policy overrides any other document pertaining to financial risk management that may be in place at the Group.

The document sets out:

- strategy for managing financial risks at the Grupa Azoty Group,
- rules for managing financial risks, including identification, quantification, monitoring, hedging and reporting of financial risks,

- permitted financial risk hedging tools,
- decision-making process related to managing financial risks at the Group,
- general financial risk management standards, tailored to the specific needs of the Group and compliant with best practice in the field,
- general rules for organising financial risk-related activities at the Group, including a division of responsibilities that ensures adequate control of the financial risk management activities.

The implemented Financial (Currency and Interest Rate) Risk Management Policy ensures:

- centralised supervision over the financial risk management process,
- monitoring of the Group's consolidated currency exposure,
- determination of the optimal hedging strategy at the Group level,
- Group-wide uniform currency risk management rules,
- uniform catalogue of acceptable and applied hedging instruments.

A Risk Committee has been set up at the Group to ensure effective implementation of the currency risk and interest rate risk management processes. The Committee analyses and determines the consolidated currency exposure of the Group and its leading companies and recommends target levels and horizons of hedges, type of currency instruments and exchange rates for hedge transactions.

The Risk Committee is composed of:

- Vice-President of the Parent's Management Board for Finance,
- Head of the Corporate Finance Department,
- Head of the Parent's Treasurer Office,
- Head of the Parent's Controlling Office,
- Chairman or Deputy Chairman of the Risk Committee and the Treasurer or other designated member of the Risk Committee of each Leading Company.

Enterprise risk management

Management Board Resolution No. 729/IX/2014 of September 3rd 2014 established the position of Group Risk Manager, whose remit covers Group-wide enterprise risk management, identification of potential risk events, risk assessment, risk response, enterprise risk management monitoring, and integration of the ERM function with the control systems in place.

Under Management Board Resolution No. 754/IX/2014 of October 21st 2014 a Risk Management Steering Committee was established, consisting of:

- Risk Manager,
- Risk Management Coordinator,
- Management Board Representative for Management Systems,
- Head of the Corporate Internal Audit Office,
- Risk Management Coordinators from Grupa Azoty Zakłady Azotowe Puławy S.A., Grupa Azoty Zakłady Chemiczne Police S.A., and Grupa Azoty Zakłady Azotowe Kędzierzyn S.A.
- Person designated as the key risk owner in a given financial year.

In line with the adopted management system procedure and agreements on joint implementation of the ERM system at the Grupa Azoty Group, in the period from September to November 2014 the Group's leading companies carried out a periodic risk identification and assessment exercise for the purpose of collecting data and developing a Group-wide risk register.

In February 2015, the Company's Management Board approved the 2014 report on Enterprise Risk Management at the Grupa Azoty Group. The document was then submitted to the Supervisory Board. It outlines key risks, audit tasks carried out by Grupa Azoty S.A. Internal Audit Office, and the operation of the integrated Enterprise Risk Management system.

The following key risks have been identified at the Grupa Azoty Group:

- risk related to availability of natural gas,
- risks associated with the planning and execution of strategic projects,
- risk associated with new legal requirements relating to production processes, including environmental regulations,
- risk of deteriorated sales performance caused by an imbalance between supply and demand,
- currency risk,
- risk of a negative effect of CO₂ trading prices on financial performance,
- risk of major industrial accidents or technical failures disrupting the continuity of processes and operation of key production units,
- risk of fertilizer oversupply, including due to imports of products manufactured from cheaper raw materials,
- risk related to the structural change on the global caprolactam market,
- risk of some shareholders undertaking activities undermining the Company's position.

The potential impact and the probability of occurrence have also been assessed for each risk.

Other risks

Apart from the risks listed above, the Company has identified the following risks:

- Risk related to operation of the power generation system,
- Risk related to availability and efficiency of capital and other sources of funding,
- Risk relating to the management of operation of production assets.

For a detailed description of the risks and related preventive measures, see *Directors' Report on the operations of the Grupa Azoty Group for the twelve months ended December 31st 2014* (Section 6.1).

External inspections and their results:

Inspecting authority	Date	Organisational unit subject to inspection	Scope	Outcome
County Sanitary Inspector (PPIS), Tarnów	Jan 8 2014	Catalyst Production Plant and Infrastructure Centre – Utilities Production and Distribution Division	Checking the implementation of PPIS' previous post-inspection decisions	No post-inspection decisions were issued

Inspecting authority	Date	Organisational unit subject to inspection	Scope	Outcome
County Sanitary Inspector (PPIS)	Jan 15 2014	Power Business Unit – Boiler House and Coal Supply Division	OHS conditions, hazardous substances and mixtures, sanitary and technical condition of the facilities	All post-inspection decisions have been implemented
County Sanitary Inspector (PPIS)	Jan 31 2014	Power Business Unit – Power Supply and Security Division	see above	All post-inspection decisions have been implemented
County Sanitary Inspector (PPIS)	Feb 20 2014	Plastics Business Unit – Lactam Division	see above	All post-inspection decisions have been complied with
County Sanitary Inspector (PPIS)	Feb 25 2014	Plastics Business Unit – Cyclohexanone Division	see above	All post-inspection decisions have been implemented
National Labour Inspectorate, Tarnów Branch (PIP)	Mar 5 2014	Plastics Business Unit Casings and Modified Granules Division	Investigating the causes and circumstances of an accident at work involving more than one person	All post-inspection decisions have been complied with
County Sanitary Inspector (PPIS)	Mar 11 2014	Infrastructure Centre – Utilities Production and Distribution Division	Checking the implementation of PPIS' previous orders and decisions	No post-inspection decisions were issued
County Sanitary Inspector (PPIS)	Mar 21 2014	Plastics Business Unit – Sulfuric Acid Production Unit and Hydroxylamine Sulfate Plant Division	OHS conditions, hazardous substances and mixtures, sanitary and technical condition of the facilities	All post-inspection decisions have been implemented
County Sanitary Inspector (PPIS)	Mar 21 2014	Power Business Unit – Power Supply and Security Division	Checking the implementation of the decision from inspection undertaken on January 31st 2014	No post-inspection decisions were issued
County Sanitary Inspector (PPIS)	Mar 28 2014	Fertilizers Production Unit – Fertilizers Storage and Dispatch Division	OHS conditions, hazardous substances and materials, sanitary and technical conditions of the facilities	No post-inspection decisions were issued

Inspecting authority	Date	Organisational unit subject to inspection	Scope	Outcome
Municipal Headquarters of the National Fire Service (PSP)	Apr 9-18 2014	Fertilizers Production Unit - Nitric Acids Division	Checking compliance with fire safety regulations; assessment of compliance with safety requirements at a plant exposed to the risk of major industrial accident (inspection undertaken following an oleum dispenser failure in the E-86 mixed acids building)	No post-inspection decisions were issued
Provincial Inspectorate for Environmental Protection of Kraków, Tarnów Office (WIOŚ)	Apr 10 2014	Fertilizers Production Unit - Nitric Acids Division	Investigating a major technical failure of April 9th 2014 (oleum dispenser failure in the E-86 mixed acids building)	All post-inspection decisions have been implemented
County Sanitary Inspector (PPIS)	Apr 10 2014	Catalyst Production Plant	OHS conditions, hazardous substances and materials, sanitary and technical conditions of the facilities	No post-inspection decisions were issued
National Fire Service (PSP)	Apr 28 2014	Fertilizers Production Unit - Nitric Acids Division	Checking compliance with fire safety regulations; assessment of compliance with safety requirements at a plant exposed to the risk of major industrial accident (continuation of the inspection undertaken following an oleum dispenser failure in the E-86 mixed acids building)	No post-inspection decisions were issued
County Sanitary Inspector (PPIS)	Apr 30 2014	Plastics Business Unit - Caprolactam Laboratory	OHS conditions, hazardous substances and materials, sanitary and technical conditions of the facilities	No post-inspection report was prepared.
County Sanitary Inspector (PPIS)	May 15-22 2014	Plastics Business Unit - Tarnoform and Formaldehyde Division	see above	All post-inspection decisions have been implemented
County Sanitary Inspector (PPIS)	May 22 2014	Fertilizers Business Unit - Nitric Acids Division	see above	No post-inspection decisions were issued
Provincial Inspectorate for Environmental Protection	Jun 9 2014	Fertilizers Business Unit - Fertilizers Division	Investigating a major technical failure of June 8th 2014 (failure of a gaseous ammonia pipeline)	All post-inspection recommendations have been implemented

Inspecting authority	Date	Organisational unit subject to inspection	Scope	Outcome
(WIOŚ)				
National Fire Service (PSP)	Jun 9-18 2014	Fertilizers Business Unit - Fertilizers Division	Checking compliance with fire safety regulations; assessment of compliance with safety requirements at a plant exposed to the risk of major industrial accident (inspection undertaken following a gaseous ammonia pipeline failure)	No post-inspection report was prepared
County Sanitary Inspector (PPIS)	Jun 10 2014	Plastics Business Segment - Production Unit in Tarnów, Oxidation Division	Checking application and compliance with benzene regulations	No post-inspection decisions were issued
Tax Office of Kraków	Jun 16 2014	Company-wide	VAT for the period Feb 1-Apr 30 2014	No post-inspection decisions were issued
National Fire Service (PSP)	Jun 17-26 2014	Fertilizers Business Unit - Fertilizers Division	Collecting data necessary to perform an analysis of a major industrial accident and to prepare recommendations for the plant operator (completion of the inspection undertaken following a gaseous ammonia pipeline failure)	No post-inspection decisions were issued
National Atomic Energy Agency	Jun 18 2014	Plastics Business Segment, Production Unit in Tarnów - Sulfuric Acid Division Power Centre - Boiler House and Coal Supply Division	Checking radiation safety	No post-inspection decisions were issued
County Sanitary Inspector (PPIS)	Jul 3 2014	Plastics Business Segment, Production Unit in Tarnów - Cyclohexanone Division, Lactam Division, Power Centre - Power Supply and Security Division	Checking the implementation of PPIS' previous orders and decisions	No post-inspection decisions were issued
County	Jul 29 2014	Fertilizers	OHS conditions, hazardous	No post-

Inspecting authority	Date	Organisational unit subject to inspection	Scope	Outcome
Sanitary Inspector (PPIS)		Business Unit – Ammonia Division	substances and materials, sanitary and technical conditions of the facilities	inspection decisions were issued
County Sanitary Inspector (PPIS)	Aug 1 2014	Plastics Business Segment, Production Unit in Tarnów – Sulfuric Acid Production Unit and Hydroxylamine Sulfate Plant Division	Checking the implementation of PPIS' previous orders	No post-inspection decisions were issued
County Sanitary Inspector (PPIS)	Aug 4 2014	Plastics Business Segment, Production Unit in Tarnów – Oxidation Division	Checking compliance with benzene regulations	No post-inspection decisions were issued
County Sanitary Inspector (PPIS)	Sep 4 2014	Plastics Business Segment, Production Unit in Tarnów – Ammonium Sulfate Division	OHS conditions, hazardous substances and materials, sanitary and technical conditions of the facilities	No post-inspection decisions were issued
National Fire Service (PSP)	Sep 16 2014	Plastics Business Segment, Production Unit in Tarnów – Sulfuric Acid Production Unit and Hydroxylamine Sulfate Plant Division	Checking compliance with fire safety regulations; assessment of compliance with safety requirements at a plant exposed to the risk of industrial accident (investigating a minor gaseous ammonia leak)	No post-inspection decisions were issued
Provincial Headquarters of the National Fire Service of Kraków	Sep 22 2014	Fertilizers Business Unit – ammonia storage facility	Collecting data necessary to perform an analysis of a major industrial accident and prepare recommendations for the plant operator; checking whether the plant operator has undertaken the required corrective measures.	No post-inspection decisions were issued
Provincial Inspectorate for Environmental Protection (WIOŚ)	Oct 7 2014	Fertilizers Business Unit – ammonia storage facility	Checking compliance with environmental protection regulations	All post-inspection orders have been implemented
National Fire	Oct 7 2014	Fertilizers	Checking compliance with	No post-

Inspecting authority	Date	Organisational unit subject to inspection	Scope	Outcome
Service (PSP)		Business Unit – ammonia storage facility	fire safety and environmental protection regulations	inspection decisions were issued
National Labour Inspectorate (PIP)	Oct 7 2014	Fertilizers Business Unit – ammonia storage facility	Checking compliance with labour laws, including OHS regulations	All post-inspection orders have been implemented
County Sanitary Inspector (PPIS)	Oct 9 2014	Plastics Business Segment, Business Unit in Tarnów – Caprolactam Polymerisation Division	OHS conditions, hazardous substances and materials, sanitary and technical conditions of the facilities	All post-inspection recommendations have been complied with
Provincial Agricultural and Food Quality Inspection (WIJHARS)	Nov 14–18 2014	Fertilizers Business Unit	Checking commercial quality of fertilizers	No post-inspection recommendations were issued.
County Sanitary Inspector (PPIS)	Nov 26 2014	Plastics Business Segment – Production Unit in Tarnów, Oxidation Division	1) OHS conditions, 2) compliance with regulations applicable to hazardous substances and mixtures used, 3) assessment of the sanitary and technical conditions of the facilities	All post-inspection recommendations have been implemented
Provincial Inspectorate for Environmental Protection (WIOŚ)	Nov 26–Dec 2 2014	Office for Management and Coordination of Production Processes Wastewater Treatment Division	Waste management inspection	No post-inspection decisions were issued
County Sanitary Inspector (PPIS)	Dec 16 2014	Plastics Business Segment – Production Unit in Tarnów	Sanitary inspection at the sausage casing production plant	No post-inspection decisions were issued
County Sanitary Inspector (PPIS)	Dec 18–30 2014	NF and NZ Department	Workplace inspection	No post-inspection decisions were issued
County Sanitary Inspector (PPIS)	Dec 30 2014	Safety and Environmental Protection Office	Workplace inspection	No post-inspection decisions were issued

SUMMARY:

The Supervisory Board issues a positive opinion on the functioning of the Company's internal control and key risk management systems.

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

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Monika Kacprzyk-Wojdyga
/Chair of the Supervisory Board/

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Jacek Obłękowski
/Deputy Chair of the
Supervisory Board/

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Ewa Lis
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