REPORT
of the Supervisory Board of Grupa Azoty S.A. on the assessment of:

- the separate financial statements of Grupa Azoty S.A. for the period January 1st–December 31st 2015
- the Directors’ Report on the Company’s operations in 2015
- the Management Board’s proposal on the distribution of net profit for 2015

I. ASSESSMENT OF THE COMPANY’S SEPARATE FINANCIAL STATEMENTS

Our assessment covered the financial statements comprising:
1. Separate statement of financial position as at December 31st 2015, showing total assets and total equity and liabilities of PLN 5,855,947 thousand,
2. Separate statement of profit or loss and other comprehensive income for the period January 1st–December 31st 2015, showing a net profit of PLN 209,055 thousand, as well as profit and loss and other comprehensive income totalling PLN 208,430 thousand,
3. Separate statement of changes in equity for the financial year January 1st–December 31st 2015, showing an increase in equity of PLN 208,430 thousand,
4. Separate statement of cash flows for the period January 1st–December 31st 2015, showing an increase in cash of PLN 84,511 thousand,
5. Notes to the separate financial statements.

The separate financial statements of Grupa Azoty S.A. for the financial year 2015 contain:
- general information on the Company’s organisational structure,
- significant accounting policies,
- notes to the separate financial statements.

Presented below are the key 2015 financials along with the comparative data for 2014 (all figures in PLN ‘000):

1. **Key financial data**

<table>
<thead>
<tr>
<th></th>
<th>2015</th>
<th>2014</th>
<th>2014/2 015 change</th>
<th>2014/2 015 change (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue</td>
<td>1,776,651</td>
<td>1,847,250</td>
<td>70,599</td>
<td>(3.8)</td>
</tr>
<tr>
<td>Cost of sales</td>
<td>(1,487,619)</td>
<td>(1,625,949)</td>
<td>138,330</td>
<td>(8.5)</td>
</tr>
<tr>
<td>Gross profit</td>
<td>289,032</td>
<td>221,301</td>
<td>67,731</td>
<td>30.6</td>
</tr>
<tr>
<td>Net profit</td>
<td>209,055</td>
<td>214,633</td>
<td>(5,578)</td>
<td>(2.6)</td>
</tr>
<tr>
<td>EBIT</td>
<td>4,198</td>
<td>(29,243)</td>
<td>33,441</td>
<td>(114.4)</td>
</tr>
<tr>
<td>EBITDA</td>
<td>95,339</td>
<td>62,510</td>
<td>32,829</td>
<td>52.5</td>
</tr>
</tbody>
</table>
With revenue down 3.8% year on year and lower cost of sales (down by 8.5%), Grupa Azoty S.A. reported higher gross profit, up PLN 67,731 thousand on 2014.

In 2015, the Company posted a PLN 30,804 thousand loss on other operating activities. Compared with 2014, the loss was up PLN 16,797 thousand, mainly due to impairment of property, plant and equipment, related primarily to an impairment loss recognised on the assets of the benzene-derived cyclohexanone plant following a change of cyclohexanone manufacturing technology, as well as costs of post-accident repair.

The Company posted a net gain on financing activities, mainly attributable to dividends received.

2. Revenue

In 2015, revenue from sales of products, merchandise and materials totalled PLN 1,776,651 thousand, down PLN 70,599 thousand, or 3.8 %, on 2014.

Revenue by segment (PLN '000):

<table>
<thead>
<tr>
<th>Segment</th>
<th>2015</th>
<th>2014</th>
<th>2014/2015 change</th>
<th>2014/2015 change (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Agro Fertilizers</td>
<td>1,059,903</td>
<td>1,039,972</td>
<td>19,931</td>
<td>1.92</td>
</tr>
<tr>
<td>Plastics</td>
<td>1,129,351</td>
<td>1,252,879</td>
<td>(123,528)</td>
<td>(9.86)</td>
</tr>
<tr>
<td>Energy</td>
<td>476,579</td>
<td>505,787</td>
<td>(29,208)</td>
<td>(5.77)</td>
</tr>
<tr>
<td>Other</td>
<td>74,610</td>
<td>56,524</td>
<td>18,086</td>
<td>32</td>
</tr>
<tr>
<td>Total</td>
<td>2,740,443</td>
<td>2,855,162</td>
<td>(114,719)</td>
<td>(4.02)</td>
</tr>
</tbody>
</table>

3. Financial ratios

**Profitability ratios**

<table>
<thead>
<tr>
<th></th>
<th>2015</th>
<th>2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gross margin</td>
<td>16.3 %</td>
<td>12.0 %</td>
</tr>
<tr>
<td>EBIT margin</td>
<td>0.2 %</td>
<td>(1.6) %</td>
</tr>
<tr>
<td>EBITDA margin</td>
<td>5.4 %</td>
<td>3.4 %</td>
</tr>
<tr>
<td>Net margin</td>
<td>11.8 %</td>
<td>11.6 %</td>
</tr>
<tr>
<td>ROA</td>
<td>3.6 %</td>
<td>4.0 %</td>
</tr>
<tr>
<td>ROCE</td>
<td>0.1 %</td>
<td>(0.6) %</td>
</tr>
<tr>
<td>ROE</td>
<td>4.8 %</td>
<td>5.1 %</td>
</tr>
<tr>
<td>Return on non-current assets</td>
<td>4.0 %</td>
<td>4.4 %</td>
</tr>
</tbody>
</table>

**Liquidity ratios**

<table>
<thead>
<tr>
<th></th>
<th>2015</th>
<th>2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>Current ratio</td>
<td>1.4</td>
<td>0.7</td>
</tr>
<tr>
<td>Quick ratio</td>
<td>0.9</td>
<td>0.3</td>
</tr>
<tr>
<td>Cash ratio</td>
<td>0.3</td>
<td>0.0</td>
</tr>
</tbody>
</table>
As a result of changes in current assets and liabilities, as at December 31st 2015 working capital stood at PLN 186,293 thousand.

**Operating efficiency ratios**

<table>
<thead>
<tr>
<th>Ratio</th>
<th>2015</th>
<th>2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>Inventory turnover</td>
<td>53</td>
<td>53</td>
</tr>
<tr>
<td>Average collection period</td>
<td>50</td>
<td>50</td>
</tr>
<tr>
<td>Average payment period</td>
<td>69</td>
<td>50</td>
</tr>
<tr>
<td>Cash conversion cycle</td>
<td>34</td>
<td>53</td>
</tr>
</tbody>
</table>

**Debt ratios**

<table>
<thead>
<tr>
<th>Ratio</th>
<th>2015</th>
<th>2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total debt ratio</td>
<td>25.2 %</td>
<td>22.7 %</td>
</tr>
<tr>
<td>Long-term debt ratio</td>
<td>17.8 %</td>
<td>8.3 %</td>
</tr>
<tr>
<td>Short-term debt ratio</td>
<td>7.3 %</td>
<td>14.4 %</td>
</tr>
<tr>
<td>Equity-to-debt ratio</td>
<td>297.5 %</td>
<td>340.4 %</td>
</tr>
<tr>
<td>Interest cover ratio</td>
<td>792.1 %</td>
<td>668.0 %</td>
</tr>
</tbody>
</table>

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

In 2015, the Company’s assets grew to PLN 5,855,947 thousand, up by PLN 455,385 thousand relative to the end of 2014. As at the end of 2015, non-current assets stood at PLN 5,240,330 thousand, and current assets were PLN 615,617 thousand.

The most significant movements in assets in the statement of financial position in 2015 against 2014 included:
- a 13.5% increase in property, plant and equipment
- a 308.1% increase in cash and cash equivalents
- a 16.7% increase in intangible assets
- a 3,539.6% increase in other financial assets.

**SUMMARY**

Having analysed the submitted financial statements and having read the auditor’s opinion and report on the audit of the 2015 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 2015 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 standing as at December 31st 2015 and of its profit or loss and cash flows for the financial year January 1st–December 31st 2015.
II. ASSESSMENT OF THE DIRECTORS’ REPORT ON THE COMPANY’S OPERATIONS IN 2015

The Directors’ Report on the Company’s operations in 2015, prepared by the Management Board, contains the following sections:

1. General information on the Company,
2. Company management principles,
3. Business overview,
4. Strategy and growth policy,
5. Company’s current financial position,
6. Risks, threats and growth prospects,
7. Company shares and shareholding structure,
8. Statement of compliance with corporate governance standards,
9. Other material information,
10. Additional information.

Discussion of the individual sections of the Directors’ Report on the Company’s operations:

1. General information on the Company
   This section presents information on:
   - The Company’s key production segments, such as Agro Fertilizers, Plastics, Energy, and Other (Section 1.2.),
   - Organisational and equity ties between the Company and other entities (section 1.3)
     - the Grupa Azoty Group comprises ten subsidiaries, including nine companies in which the Company holds ownership interests above 50%, and one indirectly controlled entity.

2. Management policy
   This section presents:
   - Company organisational chart (Section 2.1.),
   - Information on changes in key management principles (Section 2.2.), including implementation of a number of regulations, such as regulations on: internal audit, financing and liquidity management, financial risk management, technical maintenance and asset life cycle management, management of CO₂ emission standards, transfer of perpetual usufruct rights and property ownership rights, procedures to be followed in the event of audit by the Office of Competition and Consumer Protection and by the European Commission, documentation of related-party transactions, investment project management, etc.
   - Information regarding employment structure (Section 2.3.) - headcount at Grupa Azoty SA as at December 31st 2015 was 2,077 (2014: 2,088), including 1,278 blue-collar workers (2014: 1,303) and 799 white-collar workers (2014: 785)

3. Business overview
   This Section presents information on:
   - Products manufactured by the Company, by sector (Section 3.1.)
   - Sales markets and sources of supply for materials, goods and services (Section 3.2.),
   - Material and significant agreements (Section 3.3.),
   - Material events, including investments (Section 3.4.)
4. Growth strategy and policy

This section presents:
- Strategy and development directions, as set out in the Grupa Azoty Group Strategy for 2013-2020 and its operationalisation for 2014-2020 (Section 4.1.),
- Growth prospects, taking account of the market strategy, including key strategic goals adopted by Grupa Azoty SA for individual production segments (Section 4.2.),
- Key investments in Poland and abroad (Section 4.3.):

The Company’s total capital expenditure in 2015 was PLN 256,756 thousand. The structure of the capital expenditure was as follows:

- Growth capex: PLN 177,188 thousand
- Maintenance capex: PLN 41,301 thousand
- Mandatory capex: PLN 28,154 thousand
- Purchase of finished goods: PLN 10,113 thousand

Key investments implemented in 2015:
- Polyamide plant II, 80 thousand t/y,
- Granulation plant II,
- Bulk fertilizer storage facility,
- Intensification of phenol-derived cyclohexanone production,
- New iron-chromium catalyst plant,
- Increase in ammonia production capacities,
- Flue gas desulfurization unit,
- Flue gas denitrification unit,
- 20 MW pass-out and condensing turbine generator set at the CHP Plant,
- Construction of new technical-grade nitric acid storage unit – Phase 1

Section 4 also presents:
- Equity investments (Section 4.4.), including: increase in share capital at Grupa Azoty Folie Sp. z o.o., acquisition of employee shares at Grupa Azoty SIARKOPOL pursuant to the share sale agreement of September 25th 2013 and the employee social benefits package, and increase in share capital at Grupa Azoty Automatyka Sp. z o.o.,
- Assessment of viability of the Company’s investment plans (Section 4.5.) – the Company is able to finance its investment plans using either current or expected free operating cash flows (EBITDA), as well as credit facilities secured under the “New Financing” package in 2015.
- Significant R&D achievements (Section 4.6.)
- Industrial property protection considerations (Section 4.7.)

5. Company’s current financial position

This Section presents:
- Assessment of factors and non-typical events having a material impact on Grupa Azoty’s operations and financial performance (Section 5.1.), including information on the impairment loss recognised on the assets of the benzene-derived cyclohexanone plant at the Plastics Business Unit, and information on exchange rate volatility,
--- Key financial and economic data (Section 5.3.), including: segments’ financial performance, cost structure, structure of assets and liabilities,
- Financial ratios (Section 5.4.) – described in more detail in Section I hereof,
- Information on financial instruments – policy on risk and risk management instruments, objectives and methods (Section 5.10.), discussed in more detail in the Supervisory Board report on assessment of the Company’s position, including evaluation of its internal control and risk management systems, as well as compliance and internal audit functions.

6. Risk, threats and growth drivers

This section presents:
- Significant risk factors and threats (Section 6.1.), including: risk related to the structural change on the global caprolactam market; risk of some shareholders undertaking activities undermining the Company’s position; risk associated with the planning and execution of strategic projects; risk related to availability and efficiency of capital and other sources of funding; risk of fertilizer oversupply; risk related to operation of the power generation system; risk of major industrial accidents or technical failures disrupting the continuity of processes and operation of key production units; risk related to the price and availability of natural gas; risk associated with new legal requirements relating to production processes; risk relating to the management of operation of production assets; risk of a negative effect of CO2 trading prices on financial performance; currency risk). The above risks are discussed in more detail in the Supervisory Board’s Report on the assessment of the Company’s position, including evaluation of its internal control, risk management and compliance systems as well as the internal audit function.
- The Company’s significant external and internal growth factors (Section 6.2.)

7. Shares and shareholding structure

This section presents:
- Total number and par value of Company shares, Company shares held by supervisory and management personnel and such personnel’s interests in the Company’s related entities (Section 7.1.)
- Key information on Company shares, including the shareholding structure, dividend policy and summary of dividends paid in 2008-2015, the price of Grupa Azoty S.A. stock, broker recommendations, and information on the Investor Relations activities (Section 7.2.)

The total number of Company shares is 99,195,484, of which:
- 24,000,000 Series A shares,
- 15,116,421 Series B shares,
- 24,999,023 Series C shares,
- 35,080,040 Series D shares,
with a par value of PLN 5 per share.

The Company shareholding structure as at December 31st 2015 is presented below:

<table>
<thead>
<tr>
<th>Shareholder</th>
<th>Number of shares</th>
<th>Ownership interest (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>State Treasury of Poland</td>
<td>32,734,509</td>
<td>33.00</td>
</tr>
<tr>
<td>ING Pension Fund</td>
<td>9,883,323</td>
<td>9.96</td>
</tr>
<tr>
<td>Company</td>
<td>Shares</td>
<td>%</td>
</tr>
<tr>
<td>---------------------------------------------</td>
<td>-------------</td>
<td>----</td>
</tr>
<tr>
<td>Rainbee Holdings Limited*</td>
<td>9,820,352</td>
<td>9.90</td>
</tr>
<tr>
<td>Opansa Enterprises Limited*</td>
<td>9,450,000</td>
<td>9.53</td>
</tr>
<tr>
<td>TFI PZU S.A.</td>
<td>8,530,189</td>
<td>8.60</td>
</tr>
<tr>
<td>European Bank for Reconstruction and</td>
<td>5,700,000</td>
<td>5.75</td>
</tr>
<tr>
<td>Development</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Norica Holding S.à r.l.</td>
<td>571,348</td>
<td>0.57</td>
</tr>
<tr>
<td>Other</td>
<td>22,505,763</td>
<td>22.69</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>99,195,484</strong></td>
<td><strong>100.00</strong></td>
</tr>
</tbody>
</table>

*Direct subsidiary of Norica Holding S.à r.l.

8. **Statement of compliance with corporate governance standards**

This section presents:
- Corporate governance code applicable to the Company, namely “Code of Best Practice for WSE Listed Companies” - appendix to the WSE Supervisory Board Resolution of November 21st 2012 (Section 8.1.),
- Nature and degree of Company’s non-compliance with the corporate governance principles, and reasons for such non-compliance (Section 8.2.) - discussed in more detail in the Supervisory Board Report, which includes assessment of the Company’s compliance with applicable corporate governance standards,
- Internal control and risk management systems (Section 8.3.) - discussed in more detail in the Supervisory Board’s Report on assessment of the Company’s position, including evaluation of its internal control, risk management and compliance systems as well as the internal audit function,
- Changes in shareholding structure (Section 8.4.),
- Special control powers of security holders (Section 8.5.) and restrictions on the exercise of voting rights at the Company General Meetings (Section 8.6.),
- Rules governing appointment and removal of the management staff; powers of the management staff, including in particular the authority to resolve to issue or buy back shares (Section 8.8.),
- Composition and operation of the Company’s management and supervisory bodies - as at February 23rd 2016 (Section 8.11.),
- Remuneration policy, including remuneration of management and supervisory personnel (Section 8.12.),
- Information on the sponsorship, charitable and similar activities (Section 8.13) - this matter is discussed in more detail in the Supervisory Board Report on assessment of reasonableness of the Company policy, as referred to in recommendation I.R.2. of the “Code of Best Practice for WSE Listed Companies”.

9. **Other material information and events**

This Section includes information on the entity qualified to audit financial statements - KPMG Audyt Sp. z o.o. (Section 9.1.) as well as environmental considerations (Section 9.2), including: sustainable development, CSR principles, management standards and systems, safety, environmental investments, as well as water, sewage and waste management.
SUMMARY

The Supervisory Board is satisfied that the Directors’ Report on the Company’s operations in 2015 has been prepared in a reliable manner and that the data contained therein is consistent with the financial statements.

III. CONCLUSION

1. Having read the auditor’s (KPMG Audyt Sp. z o.o.) opinion and report on the audit of the Company’s financial statements, having heard the auditor’s opinion, and having assessed:
   I. the financial statements for the period January 1st-December 31st 2015, and
   II. the Directors’ Report on the Company’s operations in 2015,

the Supervisory Board proposes that the General Meeting approve the financial statements and the Directors’ Report for 2015.

IV. SUPERVISORY BOARD’S OPINION ON THE MANAGEMENT BOARD’S PROPOSAL ON DISTRIBUTION OF NET PROFIT FOR 2015

The Supervisory Board approves the proposal of the Company’s Management Board to the Annual General Meeting (adopted by the Management Board Resolution No. 316/X/2016 of April 21st 2016) that the 2015 net profit of PLN 209,054,968.10 (two hundred and nine million, fifty-four thousand, nine hundred and sixty-eight złoty, 10/100) be distributed as follows:

1. PLN 83,324,206.56, i.e. PLN 0.84 per share, to be paid as dividend to the Shareholders;
2. PLN 125,730,761.54 to the statutory reserve funds.

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

........................................... Przemysław Lis
/Chairman of the Supervisory Board/

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

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

........................................... Maciej Baranowski

........................................... Marek Grzelaczyk

........................................... Robert Kapka

........................................... Tomasz Klikowicz

........................................... Artur Kucharski

........................................... Bartłomiej Litwińczuk