

The file contains:

1. Resolution of the Company's Supervisory Board
2. Report of the Supervisory Board of Grupa Azoty S.A. on its activities in 2019

-EXCERPT-

**RESOLUTION NO. 441/X/2020**  
**OF THE SUPERVISORY BOARD OF GRUPA AZOTY S.A.**  
**dated May 29th 2020**

to adopt the *“Report of the Supervisory Board of Grupa Azoty S.A. on its activities in 2019”*

Acting pursuant to Art. 32.1.20, 32.1.21 and 32.1.22 in conjunction with Art. 50.25 of the Articles of Association of Grupa Azoty S.A. (the “Company”), the Company’s Supervisory Board

**resolves as follows:**

Section 1

The Supervisory Board adopts the *“Report of the Supervisory Board of Grupa Azoty S.A. on its activities in 2019,”* comprising:

- 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,
- an assessment of the Company’s position, including evaluation of its internal control, risk management and compliance systems as well as internal audit function,
- an assessment of fulfilment by the Company of its disclosure obligations relating to corporate governance, and of the Company’s compliance with the adopted corporate governance standards in the reporting period,
- an assessment of the reasonableness of the Company’s policy concerning sponsorship, charitable and similar initiatives,

as presented in an Appendix to this resolution.

Section 2

The Supervisory Board shall submit the report referred to in Section 1 to the Annual General Meeting for consideration.

Section 3

This Resolution shall become effective as of its date.



**Report of the Supervisory Board  
of Grupa Azoty S.A.  
on its activities in 2019**

*Adopted by Resolution No. 441/X/2020 of the Grupa Azoty S.A. Supervisory Board of the 10th term of office, dated May 29th 2020*

Tarnów, May 29th 2020

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## 1. TERM OF OFFICE AND COMPOSITION OF THE SUPERVISORY BOARD, POSITIONS HELD ON THE SUPERVISORY BOARD, AND CHANGES IN THE SUPERVISORY BOARD COMPOSITION IN THE FINANCIAL YEAR

### 1.1. SUPERVISORY BOARD'S TERM OF OFFICE

In accordance with the Articles of Association of Grupa Azoty S.A. (the "Company"), members of the Supervisory Board are appointed for a joint three-year term of office. The Supervisory Board's current 10th term of office commenced on July 5th 2016.

### 1.2. COMPOSITION OF THE SUPERVISORY BOARD, POSITIONS HELD ON THE SUPERVISORY BOARD, AND CHANGES IN THE SUPERVISORY BOARD COMPOSITION IN THE FINANCIAL YEAR

In the period from January 1st to February 26th 2019, the composition of the Supervisory Board was as follows:

No.	Name	Position
1.	Tomasz Karusewicz	Chairperson of the Supervisory Board
2.	Michał Gabryel	Deputy Chairperson of the Supervisory Board
3.	Zbigniew Paprocki	Secretary of the Supervisory Board
4.	Piotr Czajkowski	Member of the Supervisory Board
5.	Monika Fill	Member of the Supervisory Board
6.	Robert Kapka	Member of the Supervisory Board
7.	Bartłomiej Litwińczuk	Member of the Supervisory Board
8.	Ireneusz Purgacz	Member of the Supervisory Board
9.	Roman Romaniszyn	Member of the Supervisory Board

On February 26th 2019, Mr Tomasz Karusewicz tendered his resignation as Chairperson and member of the Company's Supervisory Board. On the same day, the Extraordinary General Meeting of Grupa Azoty S.A. removed Mr Ireneusz Purgacz from the Supervisory Board by Resolution No. 5, and appointed Mr Paweł Bielski, by Resolution No. 6, and Mr Marcin Pawlicki, by Resolution No. 7 to the Supervisory Board.

As a result of the above changes, in the period from February 26th to June 27th 2019 the composition of the Supervisory Board was as follows:

No.	Name	Position
1.	Michał Gabryel	Deputy Chairperson of the Supervisory Board
2.	Zbigniew Paprocki	Secretary of the Supervisory Board
3.	Piotr Czajkowski	Member of the Supervisory Board
4.	Monika Fill	Member of the Supervisory Board
5.	Robert Kapka	Member of the Supervisory Board
6.	Bartłomiej Litwińczuk	Member of the Supervisory Board
7.	Roman Romaniszyn	Member of the Supervisory Board
8.	Paweł Bielski	Member of the Supervisory Board
9.	Marcin Pawlicki	Member of the Supervisory Board

On June 27th 2019, Marcin Pawlicki, member of the Supervisory Board, was appointed Chairperson of the Supervisory Board by Resolution No. 31 of the Annual General Meeting,

In the period until the end of the financial year 2019 and until the date of this report, there were no changes in the composition of the Supervisory Board, and since June 27th 2019 the composition of the Supervisory Board of the 10th term of office has been as follows:

No.	Name	Position
1.	Marcin Pawlicki	Chairperson of the Supervisory Board
2.	Michał Gabryel	Deputy Chairperson of the Supervisory Board
3.	Zbigniew Paprocki	Secretary of the Supervisory Board
4.	Piotr Czajkowski	Member of the Supervisory Board
5.	Monika Fill	Member of the Supervisory Board
6.	Robert Kapka	Member of the Supervisory Board
7.	Bartłomiej Litwińczuk	Member of the Supervisory Board
8.	Roman Romaniszyn	Member of the Supervisory Board
9.	Paweł Bielski	Member of the Supervisory Board

## 2. ASSESSMENT OF THE SATISFACTION OF INDEPENDENCE CRITERIA BY THE SUPERVISORY BOARD MEMBERS

An ‘independent member of the Supervisory Board’ is a member who is independent within the meaning of Commission Recommendation of 15 February 2005 on the role of non-executive or supervisory directors of listed companies and on the committees of the (supervisory) board (2005/162/EC) (the “Recommendation”), with due regard to the provisions of Best Practice for WSE Listed Companies 2016, adopted by WSE Supervisory Board’s Resolution of October 13th 2015 (the “Best Practice 2016”). The criteria for being considered independent from the Company and from entities having material links with the Company should be satisfied by at least two members of the Supervisory Board.

Members of the Supervisory Board have delivered declarations of satisfying the independence criteria to the Supervisory Board and the Management Board. At its meeting held on May 17th 2019, the Supervisory Board reviewed the declarations submitted by two Supervisory Board Members:

- Mr Michał Gabryel, and
- Mr Marcin Pawlicki.

serving as the Audit Committee Chairperson and Deputy Chairperson, respectively, and found no grounds to question the declarations. Following the review, the Supervisory Board found that the persons referred to above satisfied the independence criteria set out in Art. 129 of the Act on Statutory Auditors, Audit Firms, and Public Oversight of May 11th 2017 (the “Act on Statutory Auditors”).

Declarations of satisfying the independence criteria as at December 31st 2019 submitted by Supervisory Board members

No.	Name	Satisfaction of independence criteria
1.	Marcin Pawlicki	satisfies the independence criteria
2.	Michał Gabryel	satisfies the independence criteria
3.	Zbigniew Paprocki	does not satisfy the independence criteria
4.	Piotr Czajkowski	does not satisfy the independence criteria
5.	Monika Fill	does not satisfy the independence criteria
6.	Robert Kapka	does not satisfy the independence criteria
7.	Bartłomiej Litwińczuk	does not satisfy the independence criteria
8.	Roman Romaniszyn	does not satisfy the independence criteria
9.	Paweł Bielski	does not satisfy the independence criteria

Reasons for not satisfying the independence criteria by Supervisory Board members:

- Mr Robert Kapka, Zbigniew Paprocki and Roman Romaniszyn, who represent employees of Grupa Azoty S.A. on the Supervisory Board, did not satisfy criterion b) set out in Annex II to the Recommendation;
- Mr Bartłomiej Litwińczuk, being a member of the Management Board of PZU Życie S.A., a PZU Group company, did not satisfy the independence criterion set out in Principle II.Z.4 of Best Practice 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 voting rights in the company.”*
- Ms Monika Fill did not satisfy criterion i) set out in Annex II to the Recommendation,
- Mr Piotr Czajkowski, being an employee of the State Treasury Department at the Chancellery of the Prime Minister, did not meet the independence criterion set out in Principle II.Z.6 of Best Practice 2016.
- Paweł Bielski, being employed with the Company as Head of the Corporate Strategy and Development Department in the period from January 1st 2014 to October 31st 2016, did not meet criterion b) set out in Annex II to the Recommendation.

#### **Material events after the reporting period**

On May 29th 2020, Mr Marcin Pawlicki, Mr Michał Gabryel and Mr Paweł Bielski, being Supervisory Board members who are also members of the Audit Committee, made declarations of satisfying the independence criteria in accordance with Best Practice 2016 and the independence criteria in accordance with the Act on Statutory Auditors.

On the same day, i.e. May 29th 2020, the Supervisory Board passed a resolution on the assessment of independence of the Supervisory Board members.



### 3. ACTIVITIES OF SUPERVISORY BOARD COMMITTEES

#### 3.1. GENERAL

Supervisory Board committees are collective advisory and opinion-giving bodies. Their members are appointed from among the Supervisory Board members. In 2019, the Supervisory Board committees were as follows:

- The Audit Committee,
- The Strategy and Development Committee,
- The Nomination and Remuneration Committee.

The detailed scope of the Committees' work in 2019 has been documented in the minutes of Committee meetings and in Committees' reports, all of which are a part of Supervisory Board's documentation.

#### 3.2. AUDIT COMMITTEE

In the period from January 1st to February 26th 2019, the composition of the Audit Committee was as follows:

No.	Name	Position
1.	Ireneusz Purgacz	Chairperson
2.	Tomasz Karusewicz	Member
3.	Michał Gabryel	Member

On February 26th 2019, Mr Ireneusz Purgacz was removed from the Supervisory Board by a resolution of the Extraordinary General Meeting. On the same day, Mr Tomasz Karusewicz, who also served as Chairperson of the Supervisory Board, resigned from his position on the Supervisory Board.

On March 7th 2019, the Supervisory Board resolved to appoint Mr Marcin Pawlicki and Mr Paweł Bielski to the Audit Committee, and appointed Mr Michał Gabryel as Chairperson of the Committee.

In the period until the end of the financial year 2019 and in 2020 until the date of this report, there were no changes in the composition of the Audit Committee, and since March 7th 2019 the composition of the Committee has been as follows:

No.	Name	Position
1.	Michał Gabryel	Chairperson
2.	Marcin Pawlicki	Member
3.	Paweł Bielski	Member

In the period from January 1st to December 31st 2019, the Audit Committee met eight times, held four votes using means of remote communication, and passed a total of 23 resolutions. After the reporting period, there were two meetings of the Audit Committee: on March 6th 2020 and April 6th-7th 2020, and two votes were held using means of remote communication: on February 27th-March 2nd 2020 and on April 28th-30th 2020.

In the period under review, the Audit Committee dealt with:

- monitoring the financial reporting process,
- monitoring the effectiveness of the internal control, internal audit and risk management systems in place at the Company,
- monitoring the financial auditing processes - review and audit of the separate and consolidated financial statements,
- monitoring the independence of the auditor and the audit firm,
- monitoring the work and analysing the reports of the independent auditor,
- investigating selected economic events relevant to the operations of Grupa Azoty S.A. and its Group (the “Grupa Azoty Group”).
- analysing the audit assignments completed in 2019 and the internal audit plan for 2020,
- monitoring the implementation of post-audit recommendations, including timeliness of the implementation,
- selecting an audit firm for the Grupa Azoty Group companies by defining the procedure for its selection and issuing recommendations to the Supervisory Board on the selection of an audit firm for the Grupa Azoty Group companies for 2020-2021,
- recommending adoption of the consolidated text of the *Accounting Policies of Grupa Azoty S.A.*,
- approving audit and non-audit services provided by the auditor, in accordance with the adopted *Policy for the Provision of Additional Services by the Audit Firm*.

The Audit Committee’s report for 2019 was presented to the Supervisory Board within the required time limit.

The Audit Committee ensured that the Head of the Corporate Internal Audit Department had unrestrained access to the Committee. In the reporting period, four meetings were held with the Head of the Corporate Internal Audit Department, during which matters related to the operation of the internal audit area were discussed.

The issues debated at the Committee meetings were discussed by the Audit Committee with the Supervisory Board on an ongoing basis.

### 3.3. STRATEGY AND DEVELOPMENT COMMITTEE

In the period from January 1st to March 29th 2019, the composition of the Strategy and Development Committee was as follows:

No.	Name	Position
1.	Robert Kapka	Chairperson
2.	Zbigniew Paprocki	Member
3.	Piotr Czajkowski	Member

On March 29th 2019, the Supervisory Board resolved to additionally appoint Mr Paweł Bielski to the Strategy and Development Committee.

In the period until the end of the financial year 2019 and in 2020 until the date of this report, there were no changes in the composition of the Strategy and Development Committee, and since March 29th 2019 the composition of the Committee has been as follows:

No.	Name	Position
1.	Robert Kapka	Chairperson
2.	Zbigniew Paprocki	Member
3.	Piotr Czajkowski	Member
4.	Paweł Bielski	Member

In the period from January 1st to December 31st 2019, the Strategy and Development Committee held five meetings. After the end of the reporting period and until the date of this report, there were two meetings of the Committee.

In the period under review, the Strategy and Development Committee dealt with the following matters:

- monitoring the implementation of the strategic Polimery Police project,
- monitoring the implementation of other strategic projects,
- monitoring the implementation of the operationalisation of the Company's and the Group's strategy,

- monitoring the progress of key growth projects,
- monitoring the implementation status of the finished goods purchase plan with respect to its key items,

The issues debated at the Committee meetings were discussed by the Strategy and Development Committee with the Supervisory Board on an ongoing basis.

### 3.4. THE NOMINATION AND REMUNERATION COMMITTEE

The composition of the Nomination and Remuneration Committee in the period from January 1st to December 31st 2019 was as follows:

No.	Name	Position
1.	Bartłomiej Litwińczuk	Chairperson
2.	Monika Fill	Member
3.	Roman Romaniszyn	Member
4.	Piotr Czajkowski	Member

In the financial year 2019, the Nomination and Remuneration Committee held six meetings, seven conference calls and one vote by means of remote communication. One meeting of the Nomination and Remuneration Committee took place after the reporting period, by the date of this report.

In the period under review, the Nomination and Remuneration Committee's dealt with:

- issuing an opinion on the *Rules for determining the variable remuneration of members of the Management Board of Grupa Azoty Spółka Akcyjna*,
- performing initial verification of candidates in the process to recruit and select members of the Grupa Azoty S.A. Management Board,
- recommending to the Supervisory Board a solution to address the issue of variable remuneration for members of the Management Board for 2017,
- submitting to the Supervisory Board the proposed wording of management objectives for the Management Board members,
- issuing a recommendation to the Supervisory Board on the approval of the achievement the Management Board members' objectives for 2018.

#### 4. POWERS AND RESPONSIBILITIES OF THE SUPERVISORY BOARD

The powers and responsibilities of the Supervisory Board are stipulated in Art. 32 of the Articles of Association of Grupa Azoty S.A. The Supervisory Board's key powers and responsibilities include:

- appointing and removing from office Management Board members,
- assessing the Management Board's proposals on distribution of profit or coverage of loss,
- assessing the Directors' Report on the operations of Grupa Azoty S.A. and the Grupa Azoty Group, as well as of the separate financial statements of the Company and the consolidated financial statements of the Grupa Azoty Group for their consistency with the accounting records and supporting documents and their accuracy,
- appointing an audit firm to review and audit the financial statements of the Company and the consolidated financial statements of the Group,
- approving the Company's long-term strategic plans,
- approving annual budgets including capital expenditure budgets,
- issuing opinions on all matters submitted by the Management Board for consideration to the General Meeting,
- granting approval for the Management Board to execute material legal transactions.

## 5. MATERIAL ISSUES DEALT WITH BY THE SUPERVISORY BOARD; NUMBER AND FREQUENCY OF SUPERVISORY BOARD MEETINGS AND ADOPTED RESOLUTIONS

The Supervisory Board exercised ongoing supervision over the Company's operations in each area of its activity. The Supervisory Board collectively supervised the Management Board's activities, exercising its powers and performing its duties laid down in the Commercial Companies Code, the Company's Articles of Association, the Rules of Procedure for the Supervisory Board and other laws and regulations.

When performing their duties, the Supervisory Board members followed the principles set out in Best Practice 2016.

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

- performance of the 2019 budget,
- key economic ratios,
- structure and amount of receivables and liabilities,
- structure and levels of inventories of raw materials, intermediate products and finished goods,
- profitability of individual products,
- financial and economic condition of the Grupa Azoty Group companies,
- impact of pay increase on the financial position of the Company and its material subsidiaries,
- implementation of the strategic Polimery police project,
- achievement of synergies in selected areas of the Group's operations,
- implementation of the COMPO EXPERT Group integration programme,
- implementation of the projects and initiatives provided for in the *Grupa Azoty Group Strategy for 2013-2020*,
- implementation of the multi-annual financial model of the Grupa Azoty Group for 2013-2026,
- implementation of the Group's CSR and sponsorship policy,
- activities connected with EU institutions' measures designed to limit cadmium content in fertilizers,
- monitoring of the status of cooperation with social partners at the Grupa Azoty Group companies,
- analysis of long-term financing for the Company's and the Group's operating and investing activities.
- issuing an opinion on the subscription by Grupa Azoty S.A. for shares issued as part of share capital increase at Grupa Azoty Zakłady Chemiczne Police S.A. and Grupa Azoty Polyolefins S.A.

The Supervisory Board, assisted by the Nomination and Remuneration Committee, carried out a recruitment and selection procedure to appoint an additional member to the Grupa Azoty S.A. Management Board. On June 12th 2019, the Supervisory Board elected and appointed Mr Tomasz Hryniewicz as member of the Grupa Azoty S.A. Management Board of the 11th term of office. On July 5th 2019, the Supervisory Board appointed Tomasz Hryniewicz as Vice-President of the Management Board.

On April 3rd 2019, the Supervisory Board ordered election of candidates for Supervisory Board members appointed from among candidates elected by the Group employees, and appointed the Central Election Committee. On June 15th 2019, the Central Election Committee determined the election results, stating that the following persons were candidates for members of the Grupa Azoty S.A. Supervisory Board of the 11th term of office elected by the employees: Mr Robert Kapka, Mr Zbigniew Paprocki and Mr Roman Romaniszyn.

In the reporting period, the Supervisory Board passed resolutions on the following matters:

- specifying how Grupa Azoty S.A.’s proxy should vote at the Extraordinary General Meeting of Grupa Azoty Kopalnie i Zakłady Chemiczne Siarki Siarkopol S.A. and granting approval for an increase in the company’s share capital,
- granting approval for the Management Board to exercise voting rights with respect to an increase in the share capital and amendments to the Articles of Association of Grupa Azoty Zakłady Chemiczne **Police S.A.**,
- granting approval for the subscription by the Company for shares in a proposed issue of Grupa Azoty Zakłady Chemiczne Police S.A., and disposal by the Management Board of the Company’s pre-emptive rights to acquire shares as part of the proposed issue,
- approving the subscription by the Company for shares in PDH Polska S.A. as part of a share capital increase at the company,
- granting approval for the Management Board to exercise voting rights with respect to an increase in the share capital and amendments to the Articles of Association of Grupa Azoty Compounding Sp. z o.o.

In addition, the Supervisory Board examined and supervised:

- delivery of individual objectives set forth in the Management Board members’ MBO Sheets,
- spending on individual capex and research projects,
- structure and amount of fixed costs at the Grupa Azoty Group, and possible options for their reduction,
- ownership structure of subsidiaries.

In 2019, the Supervisory Board exercised ongoing supervision over the Company’s activities using the following materials:

- financial statements - monthly, quarterly and half-yearly,
- annual budget and the Group's consolidated budget for 2019,
- the document: *'Operationalisation of the Grupa Azoty Group's revised strategy until 2020 (taking into account the developments in utilisation of identified and potential intragroup synergies beyond 2020),*
- strategic investment project delivery reports,
- the Management Board's information on initiatives and documents implemented at the Group,
- post-audit reports,
- the document: *„Audit Committee's report on a comprehensive assessment of bids received in the procurement procedure: Selection of an audit firm for the Grupa Azoty Group companies for 2020-2021, together with supplementary work related to the audit of the financial statements for 2019,*
- other information, studies and reports prepared at the request of the Supervisory Board or provided in connection with matters submitted to it for consideration or for opinion.

In the financial year 2019, the Supervisory Board met 13 times, held 20 votes using means of remote communication, and adopted 143 resolutions. The Supervisory Board's activities and decisions were documented in the resolutions it passed and the minutes of the Supervisory Board meetings held in 2019.

In 2019, there were no unexcused absences of Supervisory Board members from the meetings.



## 6. 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

In the period from January 1st to June 12th 2019, the composition of the Company's Management Board was as follows:

No.	Name	Position
1.	Wojciech Wardacki, PhD	President of the Management Board
2.	Mariusz Grab	Vice-President of the Management Board
3.	Grzegorz Kądziaławski, PhD	Vice-President of the Management Board
4.	Paweł Łapiński	Vice-President of the Management Board
5.	Witold Szczypiński	Vice-President of the Management Board
6.	Artur Kopeć	Member of the Management Board

On June 12th 2019, following a recruitment and selection procedure completed in accordance with the applicable laws, the Supervisory Board resolved to appoint Mr Tomasz Hryniewicz as member of the Company's Management Board of the 11th term of office, and on July 5th 2019 he was appointed Vice-President of the Management Board. As a result, in the period from June 12th to July 5th 2019, the composition of the Company's Management Board was as follows:

No.	Name	Position
1.	Wojciech Wardacki, PhD	President of the Management Board
2.	Mariusz Grab	Vice-President of the Management Board
3.	Grzegorz Kądziaławski, PhD	Vice-President of the Management Board
4.	Paweł Łapiński	Vice-President of the Management Board
5.	Witold Szczypiński	Vice-President of the Management Board
6.	Artur Kopeć	Member of the Management Board
7.	Tomasz Hryniewicz	Member of the Management Board

In the period from July 5th 2019 to the date of this report, there were no changes in the composition of the Company's Management Board, and since July 5th 2019 the composition of the Management Board of the 11th term of office has been as follows:

No.	Name	Position
1.	Wojciech Wardacki, PhD	President of the Management Board
2.	Mariusz Grab	Vice-President of the Management Board
3.	Tomasz Hryniewicz	Vice-President of the Management Board
4.	Grzegorz Kądziaławski, PhD	Vice-President of the Management Board
5.	Paweł Łapiński	Vice-President of the Management Board
6.	Witold Szczypiński	Vice-President of the Management Board
7.	Artur Kopeć	Member of the Management Board

## 7. IMPLEMENTATION OF A GENERAL MEETING RESOLUTION PERTAINING TO THE ACTIVITIES OF THE SUPERVISORY BOARD

On June 27th 2019, the General Meeting passed Resolution No. 28, under which it authorised the Supervisory Board to prepare the consolidated text of the Company's Articles of Association, incorporating the amendments introduced under that resolution.

In the performance of that resolution, on August 2nd 2019 the Supervisory Board passed Resolution No. 357/X/2019 to adopt the consolidated text of the Company's Articles of Association.

Furthermore, on November 13th 2019, the Supervisory Board carried into effect Resolution No. 5 of the Extraordinary General Meeting of Grupa Azoty S.A. of Tarnów, held on November 8th 2019, to approve subscription for shares in the increased share capital of Grupa Azoty Zakłady Chemiczne Police S.A., by passing Resolution No. 390/X/2019 to approve the transaction whereby the Grupa Azoty S.A. Management Board subscribes for shares as part of a secondary offering of Grupa Azoty Zakłady Chemiczne Police S.A. in excess of PLN 6,000,000.00 and disposes of Grupa Azoty S.A.'s pre-emptive rights to acquire shares as part of the secondary offering in excess of PLN 6,000,000.00.

## **8. SUPERVISORY BOARD'S DECISIONS ON APPOINTMENT OF THE AUDITOR**

On April 25th 2019, the Supervisory Board made amendments to the *Policy for the Provision of Additional Services by the Audit Firm at the Grupa Azoty Group* (Supervisory Board Resolution No. 311/X/2019).

On September 12th 2019, the Supervisory Board resolved to elect BDO Spółka z ograniczoną odpowiedzialnością spółka komandytowa of Warsaw to audit and review the Company's separate financial statements and the Grupa Azoty Group's consolidated financial statements for 2020-2021.

## **9. SELF-ASSESSMENT OF THE SUPERVISORY BOARD**

### **OPERATIONS OF THE SUPERVISORY BOARD**

The Supervisory Board positively assesses the results of its work, as well as the contribution from each Supervisory Board member. In the Supervisory Board's opinion, all members of the Supervisory Board engaged in its activities in line with the defined division of responsibilities, including participation in activities of the Supervisory Board committees.

The Supervisory Board members actively participated in Supervisory 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.

Information on the activities of the Committees is presented in Section 3 above and in the reports of individual Committees submitted to the Supervisory Board.

### **ASSESSMENT OF THE MANNER OF OPERATION OF THE SUPERVISORY BOARD, ORGANISATION OF ITS MEETINGS, AND EXERCISE OF THE RIGHT TO DELEGATE SUPERVISORY BOARD MEMBERS TO INDIVIDUALLY PERFORM SPECIFIC SUPERVISORY TASKS**

In the financial year 2019, the Supervisory Board met 13 times and held 20 votes using means of remote communication. Meetings of the Supervisory Board were held in Tarnów and Warsaw. The Supervisory Board members were notified of meetings by the time prescribed.

On January 23rd 2019, the Supervisory Board delegated Mr Michał Gabryel and Mr Zbigniew Paprocki to individually perform supervisory tasks designed to ensuring special supervision over the Company's investment area. The delegation period was extended until December 31st 2019 by a resolution passed by the Supervisory Board on August 2nd 2019.

#### Material events after the reporting period

Reports from the members delegated to individually perform supervisory tasks designed to ensuring special supervision over the Company's investment area were adopted on May 29th 2019.

#### ASSESSMENT OF COMMUNICATION BETWEEN THE SUPERVISORY BOARD AND THE MANAGEMENT BOARD

The Management Board cooperated with the Supervisory Board and submitted the required information and materials, as well as provided the required explanations.

#### ASSESSMENT OF COMPETENCES OF SUPERVISORY BOARD MEMBERS IN THE LIGHT OF THE OBJECTS AND SCALE OF THE COMPANY'S BUSINESS

Members of the Supervisory Board have high professional qualifications required to serve on the supervisory body of a public company. In 2019, the Supervisory Board consisted of persons holding university degrees in law, economics, finance, accounting, internal audit and control, management, engineering, including environmental engineering, chemical engineering, electrical engineering, and power engineering.

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

All Supervisory Board members meet the requirements set forth in the Regulation of the Polish Council of Ministers on training and examination for candidates to the supervisory boards, dated September 7th 2004.

Given their extensive competencies, professional experience, and commitment to the work of the Supervisory Board, Members of the Supervisory Board supervised the Company's operations properly and to an appropriate extent.



## 10. ASSESSMENT OF THE COMPANY'S POSITION, INCLUDING EVALUATION OF ITS INTERNAL CONTROL, RISK MANAGEMENT AND COMPLIANCE SYSTEMS AS WELL AS INTERNAL AUDIT FUNCTION

### 10.1. ASSESSMENT OF THE COMPANY'S AND THE GROUP'S POSITION

A detailed assessment of the Company's standing as described in the full-year financial statements is presented in the *Report of the Supervisory Board of Grupa Azoty S.A. on assessment of the following statements and reports for 2019: separate financial statements of Grupa Azoty S.A., consolidated financial statements of the Grupa Azoty Group, the Directors' Report on the operations of Grupa Azoty S.A. and the Grupa Azoty Group, consolidated report on payments to governments of the Grupa Azoty Group, non-financial statement of the Grupa Azoty Group, and the Management Board's proposal on the allocation of net profit for 2019.*

### 10.2. IMPLEMENTATION OF THE STRATEGIC PLAN

In 2019, the Grupa Azoty Group worked towards the objectives set out in the *Grupa Azoty Group Strategy for 2013-2020* and in the document *Operationalisation of the Grupa Azoty Group's revised strategy until 2020 (taking into account the developments in utilisation of identified and potential intragroup synergies beyond 2020)* of December 18th 2017, which lists 43 strategic initiatives covering the areas of production, internal energy generation, logistics, production assets management, raw material strategy, innovation strategy, operational excellence, financial strategy, corporate management, procurement and CSR.

Key strategic issues addressed by the Supervisory Board in 2019 included:

1. Development and integration of the group of companies of COMPO EXPERT of Münster, Germany, whose subsidiaries operate in the area of production and sale of specialty compound fertilizers in many countries in Europe, Asia, North America and South America.
2. Continuation of the process to arrange financing and implement the strategic Polimery Police project carried out by Grupa Azoty Polyolefins S.A. (formerly: PDH Polska S.A.)

### 10.3. IMPACT OF PAY INCREASE ON THE COMPANY'S FINANCIAL POSITION

The Supervisory Board monitored the average monthly pay at the Company. The table below presents changes in the Company's average monthly pay in 2019 relative to 2018.

Average pay

(all amounts in PLN unless otherwise stated)

2019	2018	Change 2019/2018	Change 2019/2018

				(%)
Average pay (with annual bonus)	6,461.89	6,228.38	233.51	3.7
Average pay (without annual bonus)	6,011.70	5,770.42	241.28	4.2

In 2019, base pay increased on average by PLN 250 per employee from January 1st 2019, and shift-work allowance rose by PLN 50 per entitled employee from January 1st 2019.

#### 10.4. EVALUATION OF INTERNAL CONTROL, RISK MANAGEMENT AND COMPLIANCE SYSTEMS AS WELL AS INTERNAL AUDIT FUNCTION

##### INTERNAL CONTROL PROCEDURES

With due regard to Best Practice for WSE Listed Companies 2016 and the adopted internal control rules, Grupa Azoty S.A. has put in place systems and functions based on the popular three lines of defence model. In this model, the first line is risk management by business units and control mechanisms in the Company's operational processes, the second line is compliance and enterprise risk management, and the third line is internal audit.

The internal control procedures are set out in the Company's Organisational Rules (Section V-6 Internal audit and control system). Internal control covers all aspects of the Company's activities: all functional and business areas (technical, production, economic, financial, organisational, administrative, HR) and other aspects of organisational units' operation, in particular any issues raised in employee complaints and observations made by employees and by persons responsible for internal control.

Based on the adopted rules and the internal control system, Grupa Azoty S.A. has established control mechanisms, organisational and hierarchical structures, operating procedures and internal instructions, as well as a division of responsibilities and manner of work which are designed to reduce risk and facilitate achieving objectives.

Grupa Azoty S.A. operates based on the implemented Integrated Management Systems, which rely on the concept of continuous improvement through:

- establishing a policy,
- planning activities designed to implement the policy,
- creating conditions for the implementation of planned activities,
- verifying the results of the activities,
- improvement based on periodic assessments of performance.

At the Grupa Azoty Group, the risk control mechanisms are divided into five categories:

- **System regulations**, understood as the policies, rules, procedures and instructions for normalised management systems and other internal regulations at the Group companies, which define the rules and procedures to be followed with respect to a specific risk area.
- **Organisational measures**, understood as other organisational activities which may reduce risk or maintain it at the desired level, and which are not part of the system regulations. They may include general terms and conditions of contracts, insurance coverage, IT solutions implemented, or maintenance services.
- **Functional and project-based risk control solutions**, understood as committees, risk monitoring and/or control teams for specific risks, whose operation may facilitate effective risk identification and management of risk-related events. This category also includes project-based activities relating to a specific risk area.
- **Preventive measures**, which significantly contribute to the prevention of adverse events. This group includes all proactive measures oriented towards reducing the likelihood of a risk materialising. Preventive measures may involve training and building awareness to eliminate undesirable behaviours or to introduce additional control measures that change the organisational culture from reactive to proactive. It is a good risk management practice to plan and implement preventive measures based on predictive analysis.
- **Predictive measures** refer to any analyses carried out in a given area, which enable the most objective prediction of future events. Such activities include collection of data for the purposes of forecasting, identifying trends, preparing scenario analyses which will enable early application of preventive measures.

The purpose of this type of analysis is, on the one hand, to fully identify the risk and, on the other hand, to reduce the risks through the quantitative assessment process. Cause and effect analyses are also predictive measures.

The internal control function is effective if it ensures that the Company's processes effectively achieve their intended objectives. In this respect, internal control functions are performed in the form of:

- self-inspection (verification of one's own work for correctness),
- functional control (verification of correctness of performed operations, both in the course and immediately upon their completion, carried out according to the division of functions at the Company),
- institutional inspections exercised by organisational units authorised to perform control activities/management system audits.

These procedures are designed to confirm the correctness of, or identify any malfunction in, each process forming part of the Company's operations, to identify the causes and sources of



malfunction, and to improve the efficiency of the unit's operations by preventing malfunction recurrence.

#### **INFORMATION POLICY**

At Grupa Azoty S.A., the main principles following from the disclosure requirements applicable to WSE-listed companies and from other legal requirements are set forth in the following documents:

1. Information Security Policy for the Grupa Azoty Group;
2. Handling Information Security Incidents;
3. Protection of Classified Information at Grupa Azoty S.A.;
4. Grupa Azoty Group Information Policy;
5. The Rules of Inside Information Flow;
6. Reportable Events;
7. Current Report Drafting and Publication Procedure;
8. Rules for Delayed Disclosure of Inside Information;
9. Notification of Insider Transactions and Trading Restrictions Applicable to Grupa Azoty S.A. Shares;
10. Insider List Maintenance Rules;
11. List of related legal acts;
12. Reporting Instruction for Material and Significant Contracts.

The above documents have been implemented in order to:

- ensure solid and lawful fulfilment by Grupa Azoty S.A. of disclosure requirements in connection with the listing of Company shares on the regulated market;
- harmonise the information policy with respect to disclosure requirements and investor relations, based on relevant regulations applicable to the Group;
- ensure proper performance by persons discharging managerial responsibilities of their obligations to notify transactions;
- define rules for the flow and handling of inside information within the meaning of capital market regulations;
- ensure efficient and effective flow of information.

#### **PREPARATION OF FINANCIAL STATEMENTS**

Maintenance of accounting books and preparation of the Company's and the Group's financial statements are subject to detailed internal control procedures based on document flow and approval instructions supported by appropriate system solutions, such as secure access, acceptance paths and levels. Employees who are involved in finance and accounting processes take part in professional training programmes that offer access to up-to-date knowledge. In the case of complex and non-standard matters, the Company uses the support of reputable consultancies, in particular



tax advisory services. An additional control mechanism consists in reviews and audits of financial statements by a qualified auditor.

## ENTERPRISE RISK MANAGEMENT

The Grupa Azoty Group operates an integrated enterprise risk management process. The risk management system in place at the Grupa Azoty Group was implemented based on ISO 31000:2018 'Risk management - guidelines'. The system framework for the process is defined in the corporate procedure *Enterprise Risk Management at the Grupa Azoty Group*. The system is integrated across the corporation through the Risk Management Process Corporate Integration Team.

The system procedure provides a functional reference framework for the enterprise risk management process, which includes the following stages:

1. Identification and classification of risks - this stage is designed to identify sources of information on opportunities and threats and to define the key variables of the internal and external environment which may materially affect the proximity or materialisation of risks at the Grupa Azoty Group.
2. Risk assessment - this stage seeks to understand the nature of the risk and draw up its full profile. As part of risk assessment at the Grupa Azoty Group companies, qualitative and quantitative analyses and control mechanism analyses are performed. Risk mapping and prioritisation are the last stage of risk assessment.
3. Risk handling - the objective of risk handling is to select and implement an optimum response to the risk. Risk handling consists in an iterative process of selecting an optimum risk handling procedure, planning and implementing the selected risk handling procedure, assessing the measures taken and their effectiveness and, should they fail to deliver the expected results, undertaking further actions.

At Grupa Azoty S.A., risk management is designed to ensure continuous control of the risk level and its maintenance within the risk tolerance range in the ever changing macroeconomic and legal environment, as defined by the Management Board of Grupa Azoty S.A. As risk level is an important factor in the planning and decision-making process, the operation of the risk management system is subject to ongoing monitoring and reporting. The persons responsible for managing identified risks are risk owners, who are tasked with managing their respective risks effectively, including by taking action to improve the understanding of the causes and implications of the risks, and implementing appropriate control and mitigation measures.

Grupa Azoty applies a multi-level reporting system in which the following persons and bodies are involved: Risk owners, risk management coordinators at the Group companies, Management Boards of the Group companies, the Corporate Risk Management Office at Grupa Azoty S.A., and the Management Board of Grupa Azoty S.A. Reports are submitted on a monthly, quarterly and annual basis. The Management Board of Grupa Azoty S.A. exercises special supervision over risks considered

as key to the Group. This supervision includes monitoring of the risk level through key risk indicators (KRI) and of incidents.

In 2019, the following risks were identified as key to the Group:

1. Risks associated with the planning and execution of strategic projects,
2. Risk related to the price and availability of key raw materials (coal, natural gas, ammonia, benzene, phenol, propylene, phosphate rock, sulfur, potassium salt),
3. Risk of major industrial accidents or technical failures disrupting the continuity of processes and operation of key production units.,
4. Risk of reduced sales of nitrogen fertilizers owing to tighter emission limits for greenhouse gases, ammonia and nitrates from nitrogen fertilizers,
5. Risk of an increase in fertilizer imports,
6. Risk of more stringent EU regulations on the content of heavy metals in fertilizer products,
7. Risk of lower fertilizer sales as a result of uncontrolled supply increase,
8. Risk of deteriorated supply-demand balance for polyamide PA6.
9. Risk of lower sales of selected plastics as a result of increased requirements on plastic recycling,
10. Risk of adverse impact for CO<sub>2</sub> emissions trading prices,
11. Currency risk,
12. Liquidity risk,
13. Interest rate risk,
14. Compliance risk,
15. Risk of unauthorised access to OT systems.

The above risk areas were analysed and verified in the first quarter of 2020 in connection with the COVID-19 pandemic. The analysis did not reveal any irregularities in identifying risks and the accepted risk management principles.

## COMPLIANCE

Compliance and Internal Audit are governed by Appendix 4 to Internal Order No. 46/2014 of December 19th 2014 concerning the Main First- and Second-degree Corporate Business Processes Management Guidelines for Grupa Azoty (VI. Compliance and Audit).

Compliance is the process of managing compliance at the Grupa Azoty Group, designed to ensure multidirectional conformity of the Group's operations with standards and rules of procedure, including:

- statutory laws,
- rules developed and generally accepted in commercial transactions (best practices, contract loyalty principle, etc.),

- internal standards of an organisation (both of formal and legal nature, such as orders, procedures, rules of procedure, services books, scopes of responsibilities, as well as general guidelines, such as corporate culture codes, codes of ethics, and CSR strategies).

The compliance and audit process comprises the following two key processes:

- Compliance management, and
- internal audit.

The objective of the compliance management process is to mitigate business risk by ensuring compliance of the organisation's activities and operations with the external and internal regulations. The task of the compliance process is to develop a system for managing non-compliance risk.

In the compliance and audit process, the main compliance management functions pertaining to corporate management include:

- implementation of corporate tasks relating to the internal audit and compliance process,
- ongoing monitoring and analysis of compliance with legal regulations, industrial standards and best market practices pertaining to the Grupa Azoty Group's business,
- supporting the Group in maintaining an effective system of internal control,
- Development and implementation of the Group's compliance policy/plan/programme,
- analysis of internal consistency (compliance) of the corporate organisational documentation,
- ensuring the compliance of organisational changes introduced at the Group companies with external and internal regulations.

The following documents relate to the compliance and audit process, where it pertains to compliance management:

- Strategy of the Grupa Azoty Group for 2014-2020,
- Code of Organisational Culture - The Grupa Azoty Group Organisational and Management System,
- Exercise of Ownership (Corporate Governance Policy) at the Grupa Azoty Group,
- Grupa Azoty Group Information Policy,
- Grupa Azoty Group Code of Ethical Conduct,
- Grupa Azoty Group Enterprise Management Policy,
- Anti-Corruption Code,
- Whistleblowing Policy,
- Conflicts of Interest Policy,
- Gift Policy,
- Trading Partners Code of Conduct,

- Rules to be Followed in Case of Inspection (Search) by the President of the Office for Competition and Consumer Protection or the European Commission,
- Anti-Money Laundering and Terrorist Financing Instruction,

Decisions/changes in compliance management made in 2019:

- drafting and implementing anti-corruption and compliance clauses, which are now included in contracts with trading partners,
- implementation of the Trading Partners Code of Conduct,
- implementation of the Gift Policy,
- implementation of the Rules to be Followed in Case of Inspection (Search) by the President of the Office for Competition and Consumer Protection or the European Commission,
- implementation of the Anti-Corruption Code, Whistleblowing Policy, Conflicts of Interest Policy, and Gift Policy at the Polish companies of the Group,
- analysis to identify the Grupa Azoty Group companies which are obliged institutions and precise definition of the scope of obligations under the new regulations; revision of the Anti-Money Laundering and Terrorist Financing instruction,
- training in competition law for employees.

#### **INTERNAL AUDIT**

The internal audit function is performed by the Internal Audit Corporate Department whose task is to carry out independent and objective assessment of internal audit systems and analyse business processes.

The independence of the Internal Audit Corporate Department is ensured in the Company's organisational structure by the Department's reporting at the administrative level to the President of the Management Board, and functionally to the Supervisory Board's Audit Committee.

The Internal Audit Corporate Department is responsible for the audit tasks based on the Annual Internal Audit Plan adopted by way of resolutions of the Company's authorised corporate bodies, i.e. the Management Board and the Supervisory Board's Audit Committee.

The Department also performs ad-hoc audit tasks not covered by the Annual Internal Audit Plan, as needed by the Management Board, the Audit Committee or the Supervisory Board of the Company.

On a case by case basis, following completion of planned or ad hoc audit tasks, the Internal Audit Corporate Department prepares recommendations designed to streamline the Group's business.

The *Grupa Azoty Group Internal Audit Standards* have been implemented at the Group. The standards define the roles of the Grupa Azoty Group's internal audit units, relations between the



Internal Audit Corporate Department and the other internal audit units of the Grupa Azoty Group companies, as well as the procedure for planning and performing global audit tasks.

A global audit task is understood as a task concerning one subject matter, implemented at the same time at all of the Grupa Azoty Group companies and included in the Grupa Azoty Group's Annual/Semi-Annual Internal Audit Plans. Performance of global audit tasks involves audits of the Grupa Azoty Group's business processes or areas, as well as assessment of applied controls and their effectiveness.

The Internal Audit Corporate Department coordinates the activities of all internal audit units of the Grupa Azoty Group, related to the preparation of Annual Internal Audit Plans with respect to global audit tasks and their implementation.

The key roles of the Grupa Azoty Group's internal audit units are to:

- a) support the organisation in:
  - attaining its strategic and operating objectives,
  - ensuring correct and effective functioning of organisational and process solutions comprising the organisation's corporate governance framework,
  - maintaining an effective system of internal control and promoting its continuous improvement,
  - providing recommendations with a view to reducing the risk of failure to implement strategic and operational objectives;
- b) contribute to:
  - supporting the risk identification and assessment process,
  - building the Group's organisational culture,

In performing its tasks, each of the Grupa Azoty Group's internal audit units cooperates on an ongoing basis with the Internal Audit Corporate Department and with the Grupa Azoty Group's other internal audit units.

Cooperation between the Grupa Azoty Group's internal audit units focuses on:

- a) defining the key areas of internal audit activity,
- b) developing an internal audit methodology,
- c) planning the topics of global audit tasks,
- d) performing global audit tasks in collaboration with the coordinating auditor,
- e) preparing periodic reports for the Grupa Azoty S.A. Management Board and Audit Committee,
- f) promoting best practice with respect to internal control system solutions, for instance by formulating recommendations and coordinating or organising internal training sessions.

Grupa Azoty S.A. has in place *Grupa Azoty S.A. Internal Audit Rules*, developed on the basis of International Standards for the Professional Practice of Internal Auditing (IIA Standards), *Exercise of Ownership (Corporate Governance Policy) at the Grupa Azoty Group*, and *Grupa Azoty Group Internal Audit Standards*. The Internal Audit Rules lay down audit procedures to be followed by the Internal Audit Corporate Department 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.

The following documents, which relate to 2019, were adopted by resolutions of the Company's Management Board:

- The Internal Audit Plan for 2019 and the Long-Term Internal Audit Plan for 2020-2022 for Grupa Azoty S.A.,
- Annual reports on audit tasks completed in 2018,
- Report of the Internal Audit Corporate Department for the first half of 2019 at the Grupa Azoty Group.

#### **ASSESSMENT**

Based on the reports and information presented by the Management Board, the Supervisory Board gives a positive assessment of the Company's internal control, risk management, compliance and internal audit systems.

The Supervisory Board states that the solutions in place should be continuously improved based on experience gathered in the course of these processes, Audit Committee's recommendations, and best practices for these areas.

## 11. ASSESSMENT OF THE WORK OF THE MANAGEMENT BOARD

The Management Board cooperated with the Supervisory Board and submitted the required information and materials, as well as provided the required explanations. When assessing the work of the Management Board, the Supervisory Board proposed that all Members of the Management Board be granted discharge from liability.

## 12. ASSESSMENT OF FULFILMENT BY THE COMPANY OF ITS DISCLOSURE OBLIGATIONS RELATING TO CORPORATE GOVERNANCE AND OF THE COMPANY'S COMPLIANCE WITH CORPORATE GOVERNANCE STANDARDS IN THE REPORTING PERIOD

In accordance with Best Practice for WSE Listed Companies 2016 (principle II.Z.10.3.), the Supervisory Board assessed how the Company fulfilled its disclosure obligations relating to compliance with the corporate governance principles set out in the WSE Rules and the rules on current and periodic information to be published by issuers of securities and the Company's compliance with the adopted corporate governance standards.

Following the assessment, the Supervisory Board did not identify any instances of non-compliance with corporate governance standards.

### 12.1. COMPLIANCE WITH BEST PRACTICE FOR WSE LISTED COMPANIES

In 2019, the Company applied those principles of Best Practice for WSE Listed Companies 2016 which had been specified in its prospectuses as the principles it would follow, except for the following recommendations and principles, in accordance with Management Board's Resolution No. 210/X/2015 of December 15th 2015:

*"IV.R.2. If justified by the structure of shareholders or expectations of shareholders notified to the company, and if the company is in a position to provide the technical infrastructure necessary for a general meeting to proceed efficiently using electronic communication means, the company should enable its shareholders to participate in a general meeting using such means, in particular through:*

- a) Real-time broadcast of a general meeting,*
- b) Real-time bilateral communication where shareholders may take the floor during a general meeting from a location other than the venue of the general meeting,*
- c) Exercise of the right to vote during a general meeting either in person or through a proxy. [...]*

*I.Z.1.20 A company should operate a corporate website and publish on it, in a legible form and in a separate section, an audio or video recording of a general meeting. [...]*

*IV.Z.2. If justified by the shareholding structure, a company should ensure publicly available real-time broadcasts of general meetings.”*

The Company’s Articles of Association and the Rules of Procedure for the Company’s General Meeting do not provide for real-time broadcasting of General Meetings. The Company believes that the way General Meetings have been documented and carried out to date ensures transparency and safeguards the rights of all shareholders. Information on resolutions passed is also published by the Company in the form of current reports, as well as on its website. Therefore, investors are able to review the matters discussed at General Meetings. However, the Company does not rule out applying these principles and recommendations in the future.

In 2019, there were no incidental violations of Best Practice 2016 as a result of which the Company would be obliged to publish a current report in the EIB system pursuant to Section 29.3 of the WSE Rules.

## **12.2. SUPERVISORY BOARD REPORTING IN CONNECTION WITH BEST PRACTICE FOR WSE LISTED COMPANIES**

In connection with the requirements laid down in Best Practice 2016, on December 21st 2015 the Company’s Supervisory Board passed Resolution No. 206/IX/2015 on adoption of Best Practice 2016, with the following exceptions reflecting the provisions of Management Board Resolution No. 210/X/2015 of December 15th 2015:

- Recommendation IV.R.2.,
- Principle I. Z.1.20.
- Principle IV. Z.2.

In line with Best Practice 2016, in 2019 the Supervisory Board prepared and presented to the Annual General Meeting the report of the Supervisory Board of Grupa Azoty S.A. on its activities in 2018, including information on:

1. The term of office and composition of the Supervisory Board, positions held on the Supervisory Board, and changes in the Supervisory Board composition in the financial year,
2. Assessment of the satisfaction of independence criteria by the Supervisory Board Members,
3. Activities of the Supervisory Board committees,
4. Powers and responsibilities of the Supervisory Board,
5. Material issues dealt with by the Supervisory Board; number and frequency of Supervisory Board meetings and adopted resolutions,
6. 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,



7. Implementation of a General Meeting resolution pertaining to the activities of the Supervisory Board,
8. Supervisory Board's decisions on appointment of the auditor,
9. Self-assessment of the Supervisory Board,
10. Assessment of the Company's position, including evaluation of internal control, risk management and compliance systems as well as internal audit function,
11. Assessment of the work of the Management Board,
12. Assessment of fulfilment by the Company of its disclosure obligations relating to corporate governance and of the Company's compliance with corporate governance standards in the reporting period,
13. Assessment of the reasonableness of the Company's sponsorship and charity policy.

The General Meetings held in 2019 were attended by representatives of the Supervisory Board - members of the Supervisory Board elected by the Company's employees.

### **12.3. COMPLIANCE WITH CORPORATE GOVERNANCE PRINCIPLES**

The corporate governance principles applied by the Company are published on the Company's website, in the Investor Relations section of the Corporate Governance tab. The section features information on:

- The Company's Management Board (roles, competences, education and professional experience of the Management Board members),
- The Supervisory Board (roles, competences, education and professional experience of the Supervisory Board members, information on the Audit Committee, the Nomination and Remuneration Committee, and the Strategy and Development Committee, reports of the Supervisory Board, and satisfaction of the independence criteria by the Supervisory Board members),
- The General Meeting,
- The auditor,
- The Company's compliance with best practice and explanations concerning the principles the Company does not observe,
- Diversity policy,
- Corporate documents (Articles of Association, Rules of Procedure for the Management Board, Rules of Procedure for the Supervisory Board, Rules of Procedure for the General Meeting),
- Reports on compliance with best practice and corporate governance.

The statement of compliance with corporate governance principles contained in the *Directors' Report on the operations of Grupa Azoty S.A. and the Grupa Azoty Group in the 12 months ended*

*December 31st 2019* includes all elements listed in Section 70.6.5 of the Minister of Finance's Regulation on current and periodic information to be published by issuers of securities and conditions for recognition as equivalent of information whose disclosure is required under the laws of a non-member state, dated March 29th 2018

(Dz.U. of 2018, item 757), in particular by reference to the corporate governance principles applicable to the Company and providing information on their application.

#### **12.4. ESG (ENVIRONMENTAL, SOCIAL AND GOVERNANCE) REPORTING**

Grupa Azoty S.A. has been listed on the Warsaw Stock Exchange since November 19th 2009, and was a constituent of the RESPECT index until it was terminated on December 31st 2019. Since September 3rd 2019, the Company has been included in WIG-ESG, an index based on the evaluation of ESG reporting by companies listed in the WIG20 and mWIG40 indices, i.e. the blue chips of the WSE.

The Company has been appreciated for its engagement in applying corporate social responsibility principles and as one of the companies having the highest standards in corporate governance, corporate disclosure discipline and investor relations, as well as in environmental, social, and employee matters. The Company's ESG reporting transparency was also appreciated by foreign institutions - Grupa Azoty S.A. has been included in the MSCI ESG and FTSE4Good indices, following a thorough assessment of its performance in terms of environmental, social and corporate governance practices.

In addition, on May 20th 2019 Grupa Azoty S.A. was again awarded the prestigious title of 'Transparent Company' in the third edition of an event run by the Parkiet daily and the Institute of Accountancy and Taxes, with the support of the Warsaw Stock Exchange.

Based on the foregoing, the Supervisory Board Grupa Azoty S.A. gives a positive assessment of the Company's fulfilment of the disclosure obligations relating to compliance with corporate governance principles, as set out in the applicable laws on current and periodic information to be published by issuers of securities and in the WSE Rules.

#### **12.5. CONCLUSIONS**

The Supervisory Board gives a favourable opinion on the Company's fulfilment in 2019 of the disclosure obligations relating to compliance with corporate governance principles, as set out in the Exchange Rules and the applicable laws on current and periodic information to be published by issuers of securities.

The Supervisory Board also favourably assesses compliance with the corporate governance standards adopted by the Company with respect to its governing bodies and organisational units in terms of compliance with the applicable laws, best practice and internal regulations, in particular those contained in the document *Exercise of Ownership (Corporate Governance Policy) at the Grupa Azoty Group*.

## **13. ASSESSMENT OF THE REASONABLENESS OF THE COMPANY'S SPONSORSHIP AND CHARITY POLICY**

### **13.1. RULES AND DOCUMENTS**

Rules governing the Company's sponsorship, charity and similar initiatives are set forth in the following documents:

1. Grupa Azoty Group's Policy on CSR and Sponsorship Activities and its Operation at the Group,
2. Grupa Azoty Group's Donation Policy,
3. Grupa Azoty S.A.'s Donation Rules,
4. Grupa Azoty Group's Scholarship Policy,

The Supervisory Board gives a positive assessment of the initiatives designed to ensure uniform application of the above rules and policies at the Grupa Azoty Group.

### **13.2. REVIEW AND EVALUATION OF SPONSORSHIP ACTIVITIES**

Grupa Azoty S.A. undertakes central-level activities aimed at promoting and advertising the entire Grupa Azoty Group, financed by all companies using the Grupa Azoty brand, and also pursues local projects promoting Grupa Azoty S.A., the parent of the Group.

The central-level activities included:

1. Cooperation with the Polish Skiing Association, guaranteeing Grupa Azoty advertising using the ski jumping, cross-country skiing, Nordic combined and snowboard national teams,
2. Support for sports events - the Grupa Azoty logotype was displayed at numerous sporting events, including the World Ski Jumping World Cup in Wisła and Zakopane, and the Grupa Azoty Triathlon Radłów competition,
3. Support for CSR initiatives in sports - the Grupa Azoty Group is the Main Partner of the National Cross-Country Skiing Development Programme,
4. Other initiatives related to environmental protection and safety, including the 'Environmental Sustainability Trends in the Chemical Industry' conference and the 'Polish



Chemical Industry 2019' congress, In addition, Grupa Azoty was a partner of the Safe Chemicals Programme, run by the Polish Chamber of Chemical Industry.

Local activities included cooperation with local clubs and sports associations, industry organisations, schools and cultural institutions. The Company also provided assistance to charitable institutions.

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