

RESOLUTION NO. 182/X/2018
OF THE SUPERVISORY BOARD OF GRUPA AZOTY S.A.
dated May 17th 2018

concerning Report of the Supervisory Board on assessment of the separate full-year financial statements of Grupa Azoty S.A. for the 12 months ended December 31st 2017 and of the Management Board's proposal on allocation of net profit for 2017

Acting pursuant to Art. 32.1.8, in conjunction with Art. 32.1.6 and Art. 32.1.7, in conjunction with Art. 50.21 of the Company's Articles of Association, the Supervisory Board resolves as follows:

Section 1

The Supervisory Board authorises the Report of the Supervisory Board of Grupa Azoty S.A. for the Annual General Meeting on the assessment of:

- the separate full-year financial statements of Grupa Azoty S.A. for the 12 months ended December 31st 2017,
- the Management Board's proposal for the Annual General Meeting on allocation of net profit, as set out in the appendix hereto.

Section 2

The Supervisory Board requests that the Annual General Meeting consider the report referred to in Section 1.

Section 3

This Resolution shall become effective as of its date.

The Resolution has been passed by open ballot, in the presence of nine Supervisory Board Members.

| | |
|------------------|-----|
| Votes in favour: | - 9 |
| Abstentions: | - 0 |
| Votes against: | - 0 |

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

[illegible signature]
Tomasz Karusewicz
/Chairman of the
Supervisory Board/

[illegible signature]
Michał Gabryel
/Deputy Chairman of the
Supervisory Board/

[illegible signature]
Zbigniew Paprocki
/Secretary of the
Supervisory Board/

[illegible signature]
Piotr Czajkowski

[illegible signature]
Monika Fill

[illegible signature]
Robert Kapka

[illegible signature]
Bartłomiej Litwińczuk

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Ireneusz Purgacz

[illegible signature]
Roman Romaniszyn

REPORT

**of the Supervisory Board of Grupa Azoty S.A. for the Annual General Meeting
on the assessment of the separate financial statements of Grupa Azoty S.A.
for the 12 months ended December 31st 2017
and the Management Board's proposal on the allocation of net profit for 2017**

Our assessment covered the financial statements comprising:

- Separate statement of financial position as at December 31st 2017, showing total assets and total equity and liabilities of PLN 6,871,133 thousand,
- Separate statement of profit or loss and other comprehensive income for the period January 1st–December 31st 2017, showing a net profit of PLN 354,793 thousand, as well as other comprehensive income totalling PLN 21,067 thousand. The aggregate amount of profit or loss and other comprehensive income is PLN 375,860 thousand,
- Separate statement of changes in equity for the financial year January 1st–December 31st 2017, showing an increase in equity of PLN 297,496 thousand,
- Separate statement of cash flows for the period January 1st–December 31st 2017, showing an increase in cash of PLN 246,680 thousand,
- Notes to the separate financial statements.

The separate financial statements of Grupa Azoty S.A. for the financial year 2017 contain:

- general information on the Company's organisational structure,
- significant accounting policies,
- notes to the separate financial statements.

The comparative data for 2016 was restated to improve the presentation of information on the effect of certain transactions on the Company's assets and financial position.

For detailed information on the restatement, see Note 2.4 to the separate financial statements of Grupa Azoty S.A.

Presented below are the key 2017 financials along with the comparative data for 2016 (all figures in PLN '000):

1. Financial highlights

| | 2017 | 2016 | 2017/2016 change | 2017/2016 change (%) |
|---------------|-------------|-------------|---------------------|----------------------------|
| Revenue | 1,681,525 | 1,552,332 | 129,193 | 8.3 |
| Cost of sales | (1,265,543) | (1,299,481) | 33,938 | (2.6) |
| Gross profit | 415,982 | 252,851 | 163,131 | 64.5 |
| Net profit | 354,793 | 193,926 | 160,867 | 83.0 |
| EBIT | 144,341 | (55,429) | 199,770 | (360.4) |
| EBITDA | 245,009 | 38,608 | 206,401 | 534.6 |

With revenue up 8.3% and cost of sales down 2.6% year on year, Grupa Azoty reported gross profit of PLN 415,982 thousand.

2. Revenue

Grupa Azoty's revenue from sales of products in 2017 was driven primarily by the market situation in the Agro Fertilizers and Plastics segments. Compared with the previous year, revenue increased across all segments.

Revenue by segment (sum of revenue from inter-segment sales and external sales, PLN '000):

| Segment | 2017 | 2016 | 2017/2016 change | 2017/2016 change (%) |
|------------------|------------------|------------------|---------------------|----------------------------|
| Agro Fertilizers | 956,433 | 934,627 | 21,806 | 2.3 |
| Plastics | 1,141,528 | 1,053,091 | 88,437 | 8.4 |
| Energy | 484,260 | 440,138 | 44,122 | 10.0 |
| Other Activities | 61,494 | 53,697 | 7,797 | 14.5 |
| Total | 2,643,715 | 2,481,553 | 162,162 | 6.5 |

3. Financial ratios

Profitability ratios [%]

| | 2017 | 2016 |
|------------------------------|------|-------|
| Gross profit margin | 24.7 | 16.3 |
| EBIT margin | 8.6 | (3.6) |
| EBITDA margin | 14.6 | 2.5 |
| Net profit margin | 21.1 | 12.5 |
| ROA | 5.2 | 3.0 |
| ROCE | 2.3 | (1.0) |
| ROE | 7.5 | 4.3 |
| Return on non-current assets | 6.1 | 3.4 |

Liquidity ratios

| | 2017 | 2016 |
|---------------|------|------|
| Current ratio | 1.8 | 1.2 |
| Quick ratio | 1.4 | 1.0 |
| Cash ratio | 1.0 | 0.6 |

As a result of changes in current assets and liabilities, as at December 31st 2017 working capital stood at PLN 476,170 thousand.

Operational efficiency ratios

| | 2017 | 2016 |
|---------------------------|------|------|
| Inventory turnover | 60 | 47 |
| Average collection period | 46 | 48 |
| Average payment period | 80 | 73 |
| Cash conversion cycle | 26 | 22 |

Debt ratios [%]

Total debt ratio
Long-term debt ratio
Short-term debt ratio
Equity-to-debt ratio
Interest cover ratio

4. Structure of assets, equity and liabilities

In 2017, the Parent's assets increased to PLN 6,871,133 thousand, i.e. by PLN 452,532 thousand relative to the end of 2016.

As at December 31st 2017, non-current assets were PLN 5,770,410 thousand, and current assets were PLN 1,100,723 thousand.

The most significant movements in assets in 2017 against 2016 included:

- an 8.3% increase in property, plant and equipment,
- a 75.7% increase in cash and cash equivalents,

- a 23.9% increase in inventories.

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

- a 6.7% increase in the Parent's equity,
- a 16.4% increase in non-current liabilities under borrowings,
- a 7.1% increase in trade and other payables,
- a 62.7% decrease in other current financial liabilities.

SUPERVISORY BOARD'S OPINION ON THE MANAGEMENT BOARD'S PROPOSAL ON ALLOCATION OF NET PROFIT FOR 2017

The Supervisory Board gives a favourable opinion on the Management Board's proposal to the General Meeting (adopted by Management Board Resolution No. 223/X/2018 of May 9th 2018) that the 2017 net profit of PLN 354,792,505.28 (three hundred and fifty-four million, seven hundred and ninety-two thousand, five hundred and five zloty, 28/100) be allocated as follows:

- PLN 52,377,430.82 to cover retained losses,
- PLN 123,994,355.00 for payment of dividend (of PLN 1.25 per share),
- PLN 178,420,719.46 to statutory reserve funds.

CONCLUSIONS AND RECOMMENDATIONS

Having analysed the submitted financial statements, and having reviewed the independent auditor's report on the audit of the 2017 separate full-year financial statements as well as the Audit Committee's opinion, the Supervisory Board is satisfied that the separate full-year financial statements for the 12 months ended December 31st 2017 have been prepared in accordance with the International Financial Reporting Standards, in accordance with the laws which are relevant to the contents of 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 (including their consistency with underlying records, supporting documents, and the actual state of affairs), properly maintained; and that they give a clear and fair view of the Company's assets and financial position as at December 31st 2017 and of its profit or loss and cash flows for the financial year January 1st–December 31st 2017.

The Supervisory Board proposes that the General Meeting approve the financial statements of Grupa Azoty S.A. for the financial year 2017.

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

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Tomasz Karusewicz

/Chairman of the Supervisory Board/

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Michał Gabryel

/Deputy Chairman of the Supervisory Board/

[illegible signature]

Zbigniew Paprocki

/Secretary of the Supervisory Board/

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