

RESOLUTION NO. 183/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 consolidated financial statements of the Grupa Azoty Group for the 12 months ended December 31st 2017

Acting pursuant to Art. 32.1.8 in conjunction with Art. 32.1.6 in conjunction with Art. 55.1 of the Accounting Act of September 29th 1994, and in conjunction with Art. 50.21 of the Articles of Association of Grupa Azoty S.A., the Supervisory Board hereby resolves as follows:

Section 1

The Supervisory Board authorises the Report of the Supervisory Board for the Annual General Meeting on the assessment of the consolidated financial statements of the Grupa Azoty Group for the 12 months ended December 31st 2017, prepared in accordance with the International Financial Reporting Standards, as set out in the appendix hereto.

Section 2

The Supervisory Board requests the Annual General Meeting to 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

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Michał Gabryel

[illegible signature]
Zbigniew Paprocki

/Chairman of the Supervisory Board/

/Deputy Chairman of the Supervisory Board/

/Secretary of the Supervisory Board/

[illegible signature]
Piotr Czajkowski

[illegible signature]
Monika Fill

[illegible signature]
Robert Kapka

[illegible signature]
Bartłomiej Litwińczuk

[illegible signature]
Ireneusz Purgacz

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Roman Romaniszyn

Appendix to Resolution No. 183/X/2018
of the Supervisory Board of Grupa Azoty S.A. of the 10th term of office,
dated May 17th 2018

REPORT

of the Supervisory Board of Grupa Azoty S.A. for the Annual General Meeting on the assessment of the consolidated financial statements of the Grupa Azoty Group for the 12 months ended December 31st 2017

Our assessment covered the Group's consolidated financial statements, comprising:

1. Consolidated statement of financial position as at December 31st 2017, showing total assets and total equity and liabilities of PLN 11,738,044 thousand,
2. Consolidated statement of profit or loss and other comprehensive income for the period January 1st–December 31st 2017, showing a net profit of PLN 488,826 thousand, as well as other comprehensive income totalling PLN 17,188 thousand. Comprehensive income for the reporting period was PLN 506,014 thousand.
3. Consolidated statement of changes in equity for the financial year January 1st–December 31st 2017, showing an increase in equity of PLN 403,935 thousand,
4. Consolidated statement of cash flows for the period January 1st–December 31st 2017, showing an increase in cash of PLN 443,990 thousand,
5. Notes to the consolidated financial statements.

The consolidated financial statements of the Grupa Azoty Group for the financial year 2017 contain:

- information about the Grupa Azoty Group, including its organisational structure,
- significant accounting policies,
- notes to the consolidated financial statements.

The consolidated financial statements have been prepared for the Grupa Azoty Group (the „Grupa Azoty Group” or the „Group”), which as at December 31st 2017 comprised Grupa Azoty S.A. (the „Parent”) and the following nine Subsidiaries:

- Grupa Azoty Zakłady Azotowe Puławy S.A. (Grupa Azoty PUŁAWY),
- Grupa Azoty Zakłady Azotowe Kędzierzyn S.A. (Grupa Azoty ZAK S.A.),
- Grupa Azoty Zakłady Azotowe Police S.A. (Grupa Azoty POLICE),
- Grupa Azoty Polskie Konsorcjum Chemiczne Sp. z o.o. (Grupa Azoty PKCh Sp. z o.o.), Grupa Azoty ATT Polymers GmbH, Grupa Azoty Kopalnie i Zakłady Chemiczne Siarki Siarkopol S.A. (Grupa Azoty SIARKOPOL),
- Grupa Azoty Koltar Sp. z o.o.,
- Grupa Azoty Folie Sp. z o.o.,
- Grupa Azoty Compounding Sp. z o.o.

The comparative data for 2016 was restated in accordance with the information presented in Note 2.4 to the consolidated financial statements.

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 (%)
PLN '000				
Revenue	9,617,495	8,966,804	650,691	7.3
Cost of sales	(7,457,734)	(7,004,483)	(453,251)	6.5
Gross profit	2,159,761	1,962,321	197,440	10.1
Net profit	488,826	315,243	173,583	55.1
EBIT	597,214	427,604	169,610	39.7
EBITDA	1,186,886	947,968	238,918	25.2

With revenue up 7.3% year on year and cost of sales growing relatively slower (up 6.5%), the Group reported an improvement in gross profit of PLN 197,440 thousand, or 10.1%, compared with the previous year.

2. Revenue

The table below presents revenue for the Group's individual segments (sum of revenue from inter-segment sales and external sales, PLN '000).

Segment	2017	2016	2017/2016 change	2017/2016 change (%)
Agro Fertilizers	7,191,719	6,885,079	306,640	4.5
Plastics	1,734,705	1,432,677	302,028	21.1
Chemicals	3,671,453	3,258,469	412,984	12.7
Energy	2,762,207	2,554,798	207,409	8.1
Other Activities	992,301	1,093,122	(100,821)	(9.2)
Total	16,352,385	15,224,145	1,128,240	7.4

3. Financial ratios

Profitability ratios [%]

	2017	2016
Gross profit margin	22.5	21.9
EBIT margin	6.2	4.8
EBITDA margin	12.3	10.6
Net profit margin	5.1	3.5
ROA	4.2	2.9
ROCE	6.1	4.7
ROE	6.6	4.5
Return on non-current assets	6.1	4.1

Liquidity ratios

	2017	2016
Current ratio	1.9	1.8
Quick ratio	1.4	1.3
Cash ratio	0.7	0.7

Operational efficiency ratios

	2017	2016
Inventory turnover	48	44
Average collection period	41	41
Average payment period	86	82
Cash conversion cycle	4	3

Debt ratios [%]

	2017	2016
Total debt ratio	36.6	36.0
Long-term debt ratio	19.9	19.1

Short-term debt ratio	16.7	16.8
Equity-to-debt ratio	173.3	178.0
Interest cover ratio	1,549.6	1,279.9

4. Structure of assets, equity and liabilities

In 2017, the Group's assets rose to PLN 11,738,044 thousand, by PLN 744,449 thousand relative to the end of 2016.

As at December 31st 2017, non-current assets were PLN 8,069,981 thousand, and current assets were PLN 3,668,063 thousand.

Year on year, the most significant changes in assets included:

- a 69.2% increase in cash and cash equivalents,
- a 6.6% increase in property, plant and equipment,
- a 16.9% increase in inventories,
- a 13.6% increase in long- and short-term trade and other receivables (including a 6.5% increase in short-term receivables),
- a 56.3% decrease in other current financial assets,
- a 17% decrease in intangible assets.

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

- a 5.7% increase in equity,
- a 14.1% increase in non-current liabilities under borrowings,
- an 11.1% increase in long- and short-term trade and other payables (including a 10.9% increase in short-term payables),
- a 58.4% decrease in other current financial liabilities.

CONCLUSIONS AND RECOMMENDATIONS

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

In view of the foregoing, the Supervisory Board proposes that the General Meeting approve the financial statements of the Grupa Azoty Group 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/

[illegible signature]

Piotr Czajkowski

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Ireneusz Purgacz

[illegible signature]

Roman Romaniszyn