

RESOLUTION NO. 185/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 Directors' Report on Grupa Azoty S.A.'s and the Grupa Azoty Group's operations for the 12 months ended December 31st 2017

Acting pursuant to Art. 32.1.8, in conjunction with Art. 32.1.6 and Art. 32.1.9, in conjunction with Art. 50.21 of the Articles of Association of Grupa Azoty S.A., the Supervisory Board 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 Directors' Report on Grupa Azoty S.A.'s and the Grupa Azoty Group's operations for the 12 months ended December 31st 2017, containing also information on entertainment expenses, legal costs, marketing costs, public relations and social communication expenses, and management consultancy fees, 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

[illegible signature]
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 Directors' Report on Grupa Azoty S.A.'s and the Grupa Azoty Group's operations for the 12 months ended December 31st 2017, containing also information on entertainment expenses, legal costs, marketing costs, public relations and social communication expenses, and management consultancy fees.

The Directors' Report on the operations of Grupa Azoty S.A. and the Grupa Azoty Group in the financial year 2017 was prepared by the Management Board and comprises:

1. General information on the Group and its Parent
2. Management policy
3. Business overview
4. Strategy and growth policy
5. Current financial position
6. Risk, threats and growth prospects
7. Shares and shareholding structure
8. Statement of compliance with corporate governance standards
9. Other material information and events
10. Non-financial statement
11. Supplementary information

Discussion of the individual sections of the Directors' Report on the Company's and Group's operations:

1. General information on the Group and its Parent

The section presents:

- Organisation and structure (structure of the Group and its individual companies, Parent's equity interests in subsidiaries, including each subsidiary's share capital in units of currency, changes in the organisation of the Group, organisational or capital links between subsidiaries and changes in their organisation).

2. Management policy

The section presents:

- Parent's organisational chart
- The Group's and the Parent's workforce.

3. Business overview

The Section presents:

- The Grupa Azoty Group's operating segments (Agro Fertilizers, Plastics, Chemicals, Energy, Other Activities);
Characteristics of the main products in particular segments;
- Sales markets and sources of supply for materials used in production, goods and services;
- Material and significant agreements;
- Material changes in the reporting period (including changes in the Presiding Committee of the Board of the Polish Chamber of Chemical Industry; Obtaining a permit to conduct business activity within Specjalna Strefa Ekonomiczna Starachowice S.A. (Starachowice Special Economic Zone); Inclusion of Grupa Azoty among the 'Engines of the Polish Economy' in a ranking prepared by the Home & Market magazine);
- Obtaining Management Systems Certificates confirming compliance with the requirements of the amended standards ISO 9001:2015 and ISO 14001:2015, as well as ISO 50001:2011;
- Award of the 'Transparent Company 2016' title;
- Letter of intent concerning a coal gasification project;
- Changes to the scope of the PDH project;
- Submission of a non-binding offer to acquire shares in Petrokemija d.d.;
- Execution of a letter of intent with Ursus S.A.;
- Launch of Idea4Azoty – Grupa Azoty's innovation accelerator programme;
- Receipt by the Parent of an Acknowledgement Letter as an 'Outstanding Exporter of the Year 2017';
- Strategic partnership between Grupa Azoty and CTL Logistics; material events after the reporting date, including:
 - Execution of an agreement with a licensor for the Police Polymers project,
 - Execution of an agreement on cooperation in fertilizers trading,
 - Submission of a non-binding initial offer to acquire shares in the COMPO EXPERT Group companies,
 - Change of Grupa Azoty KĘDZIERZYN's operations to focus on the production of non-phthalic plasticizers.

4. Growth strategy and policy

The section presents:

- Strategy and development directions, as set out in the Grupa Azoty Group Updated Strategy for 2013–2020;
- Growth prospects, taking account of the market strategy, including the key strategic goals adopted by the Grupa Azoty Group for its individual production segments;
- Key investments in Poland and abroad;
- Equity investments;

- Assessment of the feasibility of investment plans;
- Significant R&D achievements.

5. Current financial position

The Section presents, *inter alia*:

- Assessment of factors and one-off events having a material impact on the Group's operations and financial performance, including impairment losses and write-downs at the following Group companies:
 - ✓ Grupa Azoty PUŁAWY - Elektrownia Puławy Sp. z o.o.;
 - ✓ Grupy Azoty POLICE – African Investment Group S.A.;
 - ✓ Grupa Azoty PUŁAWY - Zakłady Azotowe Chorzów S.A.;
 - ✓ Grupa Azoty PUŁAWY - Agrochem Sp. z o.o.;
- Decision issued by the President of the Energy Regulatory Office, precluding Grupa Azoty KĘDZIERZYN from exercising the rights referred to in Art. 53.1 and Art. 96.2 of the RES Act in 2017–2021. Consequently, the President included Grupa Azoty KĘDZIERZYN in the sanctions list;
- Volatility of currency exchange rates;
- Prices of CO₂ emission allowances;
- Market environment of individual production segments;
- Key financial and economic data – consolidated and separate (for the Parent);
- Management of financial resources and assets;
- Deposits held in the Group companies' bank accounts;
- Credit facility and loan agreements executed and terminated during the financial year;
- Loans advanced (mostly to the Group's related parties), guarantees and sureties, including guarantees and sureties issued to and received from the Group's related parties;
- Material off-balance-sheet items;
- Risk management policies and the tools, objectives and methods of risk management (management of currency risk and interest rate risk, price risk management policy, credit risk management policy, policies insuring Grupa Azoty's receivables); expected financial position – the Parent and key Group companies are fully solvent, with good credit standing.

6. Risks, threats and growth prospects

The section describes significant risks and threats, including: Risk related to price and availability of natural gas;

- Risks related to planning and execution of strategic projects; Risk associated with new legal requirements relating to production processes, including environmental regulations;
 - Risk of deterioration of the supply and demand balance in key production segments;
 - Currency risk;
 - Risk related to availability and efficiency of capital and other sources of funding;

Risk of major industrial accidents or technical failures disrupting the continuity of processes and operation of key production units;

- Risk related to maintaining continuity of production and availability of ammonia at economically viable prices;

Risk of implementation/tightening of EU or local regulations which would restrict the use or application of the Group companies' products;

Risk of increased fertilizer imports (from Europe, China, Russia, Africa, America);

Section 6 also includes a description of the Grupa Azoty Group's significant external and internal growth factors.

7. Shares and shareholding structure

The Section presents, *inter alia*:

- Total number and par value of Parent shares, holdings of the shares by supervisory and management personnel, and interests of such persons in the Parent's related entities;
- Key information on Parent shares, including the shareholding structure, dividend policy and summary of dividends paid in 2008–2016, the price of Parent shares on the stock market and broker recommendations in the financial year 2017, and information on the Investor Relations activities.

8. Statement of compliance with corporate governance standards

The section presents:

- The corporate governance principles applicable to the Parent, that is the Code of Best Practice for WSE Listed Companies 2016 – appendix to the WSE Supervisory Board Resolution of November 21st 2012;
- nature and degree of Company's non-compliance with the corporate governance principles, and reasons for such non-compliance;
- Parent's report on compliance with the Best Practice recommendations in the reporting period;
- Characteristics of the internal control and risk management systems applied;
- Management systems and standards;
- Changes in the Parent's shareholding structure;
- Special control powers of securities holders and restrictions on the exercise of voting rights;

- Rules governing appointment and removal of the Parent's management staff; powers of the management staff, including in particular the authority to resolve to issue or buy back shares;
- Rules governing amendment of the Parent's Articles of Association;
- Powers and procedures of the Parent's General Meeting;
- Composition, changes in composition, and operation of the Parent's management and supervisory bodies, including members' CVs;
- The Grupa Azoty Group's diversity policy;
- Parent's remuneration policy together with information on the amount of remuneration paid to the Supervisory and Management Board members;
- Sponsorship, charitable and similar activities at the Group (including social and sponsorship policy; donation policy; social and sponsorship programmes for culture, education of children and youth, sports, promotion of regional development, human health and life, chemical industry; CSR, scholarship programmes, collaboration with educational institutions, competitions and programmes).

This section of the Report also contains information on entertainment expenses, legal costs, marketing costs, public relations and social communication expenses, and management consultancy fees.

The Supervisory Board identified no irregularities with respect to the information presented in Section 8.16 of the Directors' Report on the operations of Grupa Azoty S.A. and the Grupa Azoty Group for the 12 months ended December 31st 2017, and – in accordance with Art. 17.6 of the Act on State Property Management – issues a positive opinion on the above information presented in the Directors' Report.

9. Other material information and events

The section includes information on the entity qualified to audit financial statements – Ernst & Young Audyt Sp. z o.o. Sp. k. as well as information on environmental matters, including such aspects as the sustainable development policy, the Respect Index, legal requirements, safety standards, SPOT, environmental investments, water, sewage and waste management, CO₂ emission allowances, joint implementation project, noise.

10. Non-financial statement

Pursuant to Art. 49b.9 of the Accounting Act, the Group and the Parent do not prepare a non-financial statement, because they prepare a separate non-financial report.

11. Supplementary information

Section 11 presents supplementary information and events subsequent to the reporting date, including:

- the petition to open bankruptcy proceedings with respect to African Investment Group S.A.;
- execution of an agreement for the purchase of phosphate rock with Office Chérifien des Phosphates (Morocco).

CONCLUSIONS AND RECOMMENDATIONS

The Supervisory Board is satisfied that the Directors' Report on the operations of Grupa Azoty S.A. and the Grupa Azoty Group in 2017 contains important information on their assets and financial condition, including an assessment of the results, risks and threats, and the information presented therein is consistent with the data sourced from the audited financial statements of Grupa Azoty S.A. and of the Grupa Azoty Group for 2017 and with the accounting records and documents. The Report meets the requirements stipulated in Art. 49.2 of the Accounting Act.

Therefore, the Supervisory Board proposes that the General Meeting approve the Directors' Report on Grupa Azoty S.A.'s and the Grupa Azoty Group's operations for the 12 months ended December 31st 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
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Ireneusz Purgacz

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Roman Romaniszyn

Prepared by:
Katarzyna Cebula

