

RESOLUTION NO. 188/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 Company's position, including evaluation of its internal control, risk management and compliance systems as well as internal audit function for the period January 1st–December 31st 2017

Acting pursuant to Art. 32.1.21 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 Company's position, including evaluation of its internal control, risk management and compliance systems as well as internal audit function for the period January 1st–December 31st 2017, 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 hereof.

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.

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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 Company's position,
including evaluation of its internal control,
risk management and compliance systems, and internal audit function
for the period January 1st–December 31st 2017

1.

ASSESSMENT OF THE COMPANY'S POSITION

A detailed assessment of the Company's position is presented in the report of Grupa Azoty S.A.'s Supervisory Board on the assessment of the Company's separate financial statements for 2017 and the Directors' Report on the operations of the Company and the Group in 2017.

2.

**ASSESSMENT OF THE INTERNAL
CONTROL SYSTEM**

Internal control procedures

The internal control procedures are set out in the Organisational Rules, implemented by Internal Order No. 21/2014 of May 16th 2014 (Section V.6 'Internal audit and control system'), and in the Internal Control Rules (attached as an appendix to Internal Order No. 36/2005 of October 28th 2005).

Pursuant to the Internal Control Rules, internal control covers all aspects of the Company's activities – all functional and business areas including technical, production-related, economic, financial, organisational, administrative, HR-related and other aspects of the operation of organisational units, and particularly issues raised in employee complaints and observations made by employees and by persons responsible for internal control.

Information Policy

Issues related to information security are subject to the following internal documents:

Information Security Policy for the Group –
Internal Order No. 8/2012 of February 3rd 2012

- Handling Information Security Incidents at Zakłady Azotowe w Tarnowie-Mościcach S.A. [currently Grupa Azoty S.A.] – Internal Order No. 53/2012 of December 24th 2012
- Confidential Information Protection at Grupa Azoty S.A. – Internal Order No. 63/2013 of December 31st 2013
- Amendments to Internal Order No. 3/2011 of February 15th 2011 regarding the

Instruction for electronic document flow and information exchange – Internal Order No. 8/2017 of February 28th 2017

- Information Policy at the Grupa Azoty Group – Internal Order No. 41/2017 of November 20th 2017 approved by Management Board Resolution No. 1094/X/2017 of November 8th 2017.

The consolidated text of the following documents was introduced for official use by Internal Order No. 41/2017 of November 20th 2017:

- 1) 'Grupa Azoty Group Information Policy';
- 2) 'Rules of Inside Information Flow';
- 3) 'Reportable events';
- 4) 'Procedure for preparation and publication of current reports';
- 5) 'Rules for delayed disclosure of inside information';
- 6) 'Notification of insider transactions and restrictions on trading in shares at Grupa Azoty S.A.';
- 7) 'Rules for keeping an insider list';
- 8) 'List of related legal acts';
- 9) 'Instruction on reporting of material and significant contracts'.

Documents included in this Internal Order define the framework for cooperation between Grupa Azoty S.A. (the "Company") and the Grupa Azoty Group's subsidiaries with respect to disclosure requirements applicable to listed companies in order to:

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

Preparation of financial statements

The internal control of the process of preparing the Company's financial statements is governed by the applicable procedures and internal orders:

- Accounting Policies of Grupa Azoty S.A. and the Grupa Azoty Group – Internal Order No. 32/2013 of September 4th 2013, as amended by Internal Orders No. 5/2014 of February 10th 2014, No. 15/2016 of April 26th 2016, and No. 2/2017 of January 20th 2017. On January 10th 2018, the Company's Management Board passed Resolution No. 11/X/2018 to adopt the consolidated text of the 'Grupa Azoty Group's Accounting Policies'. The Management Board obliged the Group Management Office to issue a relevant internal order.

3.

ASSESSMENT OF RISK MANAGEMENT

Enterprise risk management

Management Board Resolution No. 729/IX/2014 of September 3rd 2014 established the position of Group Risk Manager, whose remit covers Group-wide enterprise risk management, identification of potential risk events, risk assessment, risk response, enterprise risk management monitoring, and integration of the enterprise risk management function with the control system in place.

Under Management Board Resolution No. 754/IX/2014 of October 21st 2014, a Risk Management Steering Committee was established, comprising President of the Management Board of Grupa Azoty S.A., Risk Manager, Risk Management Coordinator, Management Board Representative for Management Systems, Head of the Corporate Internal Audit Office and Risk Management Coordinators from the Group's key companies (Grupa Azoty Zakłady Azotowe Puławy S.A., Grupa Azoty Zakłady Chemiczne Police S.A., and Grupa Azoty Zakłady Azotowe Kędzierzyn S.A.).

As a result of enlargement of the Committee by virtue of Resolutions No. 99/X/2015 of July 14th 2015 and No. 398/X/2016 of July 1st 2016, the current composition of the Committee is as follows:

- President of the Management Board, Grupa Azoty S.A. – Chairman
- Risk Manager (Grupa Azoty S.A.) – Deputy Chairman
- Risk Management Coordinator (Management Systems Corporate Office – Grupa Azoty S.A.) – Secretary
- Management Board Representative for Management Systems – Head of the Management Systems Corporate Office (Grupa Azoty S.A.) – Committee Member
- Head of the Corporate Internal Audit Office, (Grupa Azoty S.A.) – Committee Member
- Risk Management Coordinators from the Group companies (Grupa Azoty Zakłady Azotowe Puławy S.A., Grupa Azoty Zakłady Azotowe Kędzierzyn S.A., Grupa Azoty Zakłady Chemiczne Police S.A., Grupa Azoty Kopalnie i Zakłady Chemiczne Siarki Siarkopol S.A., Gdańskie Zakłady Nawozów Fosforanowych Fosfory Sp. z o.o., Zakłady Azotowe Chorzów S.A.) – Committee Members.

By Management Board Resolution No. 816/IX/2015 of January 8th 2015, the management system procedure 'PR-1 - Integrated Enterprise Risk Management at Grupa Azoty' was approved, and then by Management Board Resolution No. 336/X/2016 of May 9th 2016 the second edition of this procedure (amended by extending risk management to cover GA Siarkopol S.A., GZNF Fosfory Sp. z o.o. and ZA Chorzów S.A.) was approved, while

Resolution No. 880/X/2017 approved the third edition of the procedure.

The procedure defines the objective, subject matter, and scope of Grupa Azoty's enterprise risk management regulations, the scope of responsibilities of individual entities participating in risk management processes, and key assumptions underlying the activities performed as part of the process.

The following are the Management Board resolutions passed in 2017 to adopt enterprise risk management documents:

- By Resolution No. 595/X/2017 of February 8th 2017, the Company's Management Board approved the following documents: 'Enterprise Risk Management at Grupa Azoty S.A. The 2016 periodic report';
- By Resolution No. 643/X/2017 of March 10th 2017, the Company's Management Board approved the document entitled 'Enterprise Risk Management at the Grupa Azoty Group. The 2016 periodic report for the Grupa Azoty Supervisory Board';
- Following a request from the Management Board Representative for Management Systems of July 17th 2017 (ref. No. ZS/LP/250/2017), by Resolution No. 861/X/2014 of July 25th 2017 the Management Board approved the 'Grupa Azoty Group's Enterprise Risk Management Policy'.

Enterprise Risk Management comprises:

- risk identification and assessment – a process aimed at obtaining and communicating structured information on risks present at the Grupa Azoty Group companies and the extent of threats related to their materialisation. Risk identification and assessment is performed once a year, each time between September 1st and November 15th, thanks to which up-to-date knowledge of risks can be taken into account in preparing operational plans and budgets for another year, annual internal audit plans, plans and schedules of internal audits of management systems, and information on risks for the purposes of annual Directors' Reports of the Grupa Azoty companies.
- definition and implementation of risk responses and incident response plans (choice of risk management strategies, development of detailed approaches to managing specific risks, preparation of action plans in case of risk materialisation);
- monitoring and reporting of risk levels (risk measurement – defining Key Risk Indicators [**KRI**]) and their thresholds, monitoring of the indicators and communicating them within the organisation);
- use of information on risks in decision-making processes;
- reporting and communication (periodic reporting, ad hoc reporting, information on risks for the purposes of preparation of reports on the operation of the Group companies' management boards),
- monitoring and evaluation of the risk management system (monitoring and periodic evaluation of Enterprise Risk Management).

As part of the above procedure, in the period from the beginning of 2017 until the date of this report, the following documents were prepared and approved:

- 'Key Risks at the Grupa Azoty Group – Acceptance of the Group Companies'

Scorecards of Key Risks which Are Concurrently Key Risks of the Grupa Azoty Group', prepared following risk identification and assessment carried out at the key companies of the Grupa Azoty Group (Management Board Resolution No. 572/X/2017 of January 25th 2017);

- 2016 Risk Management Report for the Supervisory Board to approve the 'Enterprise Risk Management at Grupa Azoty S.A. The 2016 periodic report' (Management Board Resolution No. 595/X/2017 of February 8th 2017);
- 'Results of the 2017 Review of the Grupa Azoty S.A. Risks', prepared following a risk register review performed at Grupa Azoty S.A. between September and October 2017, taking into account the comments made at the Management Board meeting held on November 8th 2017 (Management Board Resolution No. 1123/X/2017 of November 23rd 2017);
- the Grupa Azoty Group 2017 Enterprise Risk Management Report (Management Board Resolution No. 108/X/2018 of February 23rd 2018).

In 2017, the following key risks were identified for the Grupa Azoty Group:

- risk of increased fertilizer imports (from Europe, China, Russia, Africa, America);
- risk of deteriorated supply-demand balance;
- risk of the need to adapt production processes to new legal requirements;
- risk related to maintaining continuity of production and availability of ammonia at economically viable prices;
- risk related to price and availability of natural gas;
- risks related to planning and execution of strategic projects;
- risk of major industrial accidents or technical failures disrupting the continuity of processes and operation of key production units;
- risk of a negative effect of CO₂ trading prices on financial performance;
- currency risk;
- risk related to a structural change on the global caprolactam market;
- risk of implementation/tightening of EU or local regulations which would restrict the use or application of the Company's products;
- risk of failure to meet deadlines for reduction of NO₂, SO_x and particulate matter emissions;
- risk of stricter regulatory requirements regarding heavy metal content in the Company's products/acceptable quality parameters;
- risk related to availability and efficiency of capital and other sources of funding;
- risk related to managing minimum inventory levels;
- short-term (annual) liquidity risk;
- risk of marketing new products by competitors, such as sulfur-based fertilizers, or speciality products dedicated to specific crops or specific customers;
- risk related to operation of the power generation system.

In accordance with the Grupa Azoty Group's enterprise risk management model, the Management Board of Grupa Azoty S.A. exercises special supervision over risks considered to be of key relevance to the Group. This supervision covers monitoring and reporting of risk levels in the coming year (based on defined **KRI**) and reporting of risk materialisation incidents.

In order to enhance the functions performed as part of the ERM process at the Grupa Azoty Group, i.e.: risk assessment, data aggregation and analysis, risk level monitoring and reporting (KRI), incident data collection, as well as approval/acceptance of risk scorecards, it is reasonable to implement a professional IT tool supporting the ERM process.

Financial risk management

In 2017, the following documents defined financial risk management procedures:

Orders:

- Financial (Currency and Interest Rate) Risk Management Policy at the Grupa Azoty Group – Internal Order No. 40/2014 of November 17th 2014, as amended by Internal Order No. 42/2016 of December 27th 2016;
- Financing and Liquidity Management Policy for the Grupa Azoty Group – Internal Order No. 13/2015 of May 19th 2015;
- Credit (Trade Credit) Risk Management Policy at the Grupa Azoty Group – Internal Order No. 25/2017 of June 6th 2017 (Management Board Resolution No. 696/X/2017 of April 21st 2017).

Resolutions:

Management Board Resolution No. 792/X/2017 of June 20th 2017 concerning the 'Accounting Policies'.

The Financial Risk Management Policy defines the objectives, procedures and responsibilities in managing financial risks at the Grupa Azoty Group. The Parent's Management Board is responsible for ensuring that the Financial Risk Management Policy is in line with the Group's strategic objectives. The Policy applies to the Parent, the leading companies (Grupa Azoty Zakłady Azotowe Kędzierzyn S.A., Grupa Azoty Zakłady Azotowe Puławy S.A., Grupa Azoty Zakłady Chemiczne Police S.A., Grupa Azoty Kopalnie i Zakłady Chemiczne Siarki Siarkopol S.A.) and their selected subsidiaries. The Policy overrides any other document pertaining to financial risk management that may be in place at the Group.

The document sets out:

strategy for managing financial risks at the Grupa Azoty Group,

- rules for managing financial risks, including identification, quantification, monitoring, hedging and reporting of financial risks,
- permitted financial risk hedging tools,
- decision-making process related to managing financial risks at the Group,
- general financial risk management standards, tailored to the specific needs of the Group, and their compliance with best practice in the field,
- general rules for organising financial risk-related activities at the Group, including a division of responsibilities that ensures adequate control of financial risk management.

The implemented Financial (Currency and Interest Rate) Risk Management Policy ensures:

- centralised supervision of the financial risk management process,
- monitoring of the consolidated currency exposure of the Group and its subsidiaries,
- defining the optimum hedging strategy at the Group level,

- uniform rules of currency risk management at the Group,
- uniform catalogue of acceptable and applied hedging instruments.

A Risk Committee has been set up at the Group to ensure effective implementation of the currency risk and interest rate risk management processes. The Committee analyses and determines the consolidated currency exposure of the Group and its leading companies and recommends target levels and horizons of hedges, type of currency instruments and exchange rates for hedge transactions.

The Risk Committee is composed of:

- Vice President of the Parent's Management Board for Finance,
- Head of the Corporate Finance Department,
- Head of the Parent's Treasurer Office,
- Head of the Parent's Controlling Office,
- Chairman or Deputy Chairman of the Risk Committee and the Treasurer or other designated member of the Risk Committee of each company.

The credit risk management policy is presented in the Directors' Report on the operations of Grupa Azoty S.A. and the Grupa Azoty Group in the 12 months ended December 31st 2017 (Section 5.10.)

4. COMPLIANCE ASSESSMENT

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 – process of compliance management at the Grupa Azoty Group focusing on multifaceted compliance and conformity with regulations, standards and rules of procedure, including:

- legislative acts,
- rules of procedure developed and generally accepted in commercial transactions (best practices, contract loyalty principle),
- internal standards of each organisation (both of formal and legal nature, such as regulations, procedures, rules of procedure, services books, scopes of responsibilities, and 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 sub-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. The Compliance process also supports the Management Board in minimising non-compliance risk and thus minimising legal or regulatory penalties, financial losses or loss of reputation, which the organisation may incur if it fails to comply with the applicable legal regulations, generally accepted practice and ethical standards, as well as internal policies and procedures.

In the Compliance and Audit process, the main 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 Group's business,
- support of the Group in maintaining an effective system of internal control,
- development and implementation of the Group's compliance policy and 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,
- planning and implementation of global audit tasks, including the development of long-term and annual audit plans for the Grupa Azoty Group,
- development of the methodology and standard/rules of procedure for internal audit at the Group,
- supervision of the implementation of post-audit recommendations,
- cooperation with external control and regulatory authorities, external auditors, including the financial auditor.

The following documents relate to the Compliance and Audit process:

- 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,
- Internal Audit Standards at the Grupa Azoty Group,
- Internal Audit Rules for the Group Companies,
- Grupa Azoty Group Information Policy,
- Grupa Azoty Group's Code of Ethical Conduct, Grupa Azoty Group Corporate Management Policy.

Decisions made in 2017 in the area of Compliance:

- Management Board Resolution No. 626/X/2017 of March 6th 2017 to approve the composition and tasks of the Working Group for the development of a corporate model to manage the Internal Audit, Compliance Management, Risk Management

and Safety/Internal Control processes and to update the process documentation for these areas,

- Management Board Resolution No. 627/X/2017 of March 6th 2017 to establish the Steering Committee and Task Team for the 'Compliance at the Grupa Azoty Group' project',
- Management Board Resolution No. 734/X/2017 of May 17th 2017 to update the composition of the Steering Committee and Task Team for the 'Compliance at the Grupa Azoty Group' project,
- Management Board Resolution No. 981/X/2017 of September 26th 2017 to update the composition of the Task Team for the 'Compliance at the Grupa Azoty Group' project,
- Management Board Resolution No. 982/X/2017 of September 26th 2017 to approve the following documents: 'Grupa Azoty Group's Compliance Management Programme' and 'Grupa Azoty Group's Compliance Management Rules'.

Milestones for key work on the development and implementation of the Compliance Management Policy at the four key companies of the Grupa Azoty Group were developed in 2016 and approved by Management Board Resolution No. 529/X/2016 of December 21st 2016.

These measures include:

1. Review of the Compliance Management model and the key process documents drafted thus far – Q1 2017,
2. Drafting of the Compliance Management Rules – Q1/Q2 2017,
3. Approval by the Management Board of Grupa Azoty S.A. of the Compliance Management process documents prepared by the Project Structures – Q2 2017,
4. Preparation of training material templates and agenda for Compliance Management training for senior management of the Grupa Azoty Group companies participating in the project – Q2 2017,
5. Meetings with the Management Boards of the Grupa Azoty Group companies participating in the project and their management staff to communicate the assumptions and objectives of the 'Compliance at the Grupa Azoty Group' project and commence its implementation – Q2 2017.

5.

ASSESSMENT OF THE INTERNAL AUDIT FUNCTION

By Internal Order No. 41/2011, an internal audit function was implemented across the Group in December 2011 by establishing the Internal Audit Office, a new organisational unit within the Company's structure which reports directly to the President of the Management Board.

Internal Order No. 23/2015 of September 17th 2015 served to implement the 'Grupa Azoty Group Internal Audit Standards'. The standards define the roles of the Grupa Azoty Group's internal audit units, relations between the Corporate Internal Audit Office and Internal Audit Divisions of the other internal audit units of the Grupa Azoty Group, as well as the procedure

for planning and performing global audit tasks.

A global audit task is understood as a task with the same subject matter, implemented at the same time at all of the Grupa Azoty Group companies, 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 the applied controls and of their effectiveness.

Grupa Azoty S.A.'s Corporate Internal Audit Office 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:
 - efficient attainment of its strategic and operating objectives,
 - the process of 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,
 - conducting the management process (Compliance).

- b) contribute to:
 - supporting the risk identification and assessment process,
 - building the Group's organisational culture.

Each of the Grupa Azoty Group's Internal Audit Divisions cooperates on an ongoing basis with the Corporate Internal Audit Office and with the other Grupa Azoty Group's Internal Audit Divisions.

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 to be applied,
- c) planning the subject matter of global audit tasks,
- d) performing global audit tasks, in partnership with the coordinating auditor,
- e) preparing periodic reports for the Grupa Azoty S.A. Audit Committee,
- f) promoting best practice with respect to internal control system solutions by formulating recommendations and coordinating or organising internal training sessions.

Powers of the Corporate Internal Audit Office with regard to internal audit at the Grupa Azoty Group:

- a) performance of corporate functions relating to the internal audit and compliance management processes, to the extent defined by corporate standards endorsed by Grupa Azoty S.A. and implemented by the Grupa Azoty Group Companies, included in the Grupa Azoty Group's 'Exercise of ownership – corporate governance policy', 'Code of Organisational Culture – The Grupa Azoty Group Organisational and Management System', 'Process Management Guidelines', these Standards and instructions of the President of the Grupa Azoty Management Board,

- b) setting the main directions and methodology for the operation of the Grupa Azoty Group's internal audit function,
- c) planning the subject matter of global audit tasks in consultation with the Grupa Azoty Group's Internal Audit Divisions,
- d) coordination of the implementation of global audit tasks.

The purpose of Internal Order No. 24/2015 of September 17th 2015 was to approve Grupa Azoty S.A. Internal Audit Rules, developed on the basis of the International Standards for the Professional Practice of Internal Auditing (IIA Standards) and rules contained in the document 'Exercise of ownership – corporate governance policy' and 'Grupa Azoty Group Internal Audit Standards'. The Rules lay down audit procedures to be followed by the Corporate Internal Audit Office 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 2017, were adopted by resolutions of the Company's Management Board:

- Annex 1 to the '2016 Internal Audit Plan for Grupa Azoty S.A.' along with the 'Long-Term Internal Audit Plan for Grupa Azoty S.A. for 2016–2018' (Management Board Resolution No. 433/X/2016 of August 23rd 2016),
- '2017 Internal Audit Plan for Grupa Azoty S.A.' along with the 'Long-Term Internal Audit Plan for Grupa Azoty S.A. for 2017–2019' (Management Board Resolution No. 543/X/2016 of December 28th 2016),
- Implementation of corporate audit task No. 3/2017 at Grupa Azoty Police, Grupa Azoty Kędzierzyn, and Grupa Azoty Puławy (Management Board Resolution No. 642/X/2017 of March 10th 2017),
- 'Consolidated Semi-Annual Report by the Corporate Internal Audit Office on the Performance of Tasks between January and June 2017' (Management Board Resolution No. 922/X/2017 of September 6th 2017).

Decisions made after the end of the reporting period:

The Company's Management Board passed Resolution No. 110/X/2018 of February 23rd 2018 to approve the Internal Audit Plan for 2018 and the Long-Term Internal Audit Plan for 2019–2021 for Grupa Azoty S.A.

On March 12th 2018, the Company's Management Board passed Resolution No. 142/X/2018 to adopt the Annual Report on the audit tasks completed in 2017 .

The Internal Audit Plan for 2018, the Long-Term Internal Audit Plan for 2019–2021 for Grupa Azoty S.A., and the Annual Report on the audit tasks completed in 2017 were discussed at meetings of the Audit Committee and of the Supervisory Board of Grupa Azoty S.A.

6.

EXTERNAL INSPECTIONS AND THEIR RESULTS:

Date	Inspecting authority/body	Organisational unit subject to inspection	Scope	Outcome
Jan 11th–20th 2017	Municipal Headquarters of the State Fire Service in Tarnów (KM PSP)	Company Fire Brigade	Compliance with fire regulations, evaluation of compliance with safety requirements at an upper-tier establishment (approval of the Safety Report)	No irregularities were found.
Jan 27th–31st 2017	County Sanitary Inspector, Tarnów Branch (PPIS)	Safety and Environmental Protection Office	OHS conditions, compliance with regulations applicable to hazardous substances and mixtures, and assessment of the sanitary and technical condition of the facilities	No irregularities were found.
Feb 8th–14th 2017	County Sanitary Inspector, Tarnów Branch (PPIS)	Plastics Segment – Sulfuric Acid Production Unit and Hydroxylamine Sulfate Plant Division	Workplace compliance with	No irregularities were
Mar 9th 2017	Municipal Police Headquarters in Tarnów	Grupa Azoty S.A.	provision of information on the sale of ZWRI Sp. z o.o., ZETO, and Elzat Sp. z o.o.	No post-inspection report has been issued to date.

Mar 16th–21st 2017	County Sanitary Inspector, Tarnów Branch (PPIS)	Plastics Segment – Lactam Division	OHS conditions, compliance with regulations applicable to hazardous substances and mixtures, and assessment of the sanitary and technical condition of the facilities.	No irregularities were found.
Apr 18th–24th 2017	County Sanitary Inspector, Tarnów Branch (PPIS)	Plastics Segment – Casings and Modified Granules Division	OHS conditions, compliance with regulations applicable to hazardous substances and mixtures, and assessment of the sanitary and technical condition of the facilities.	No irregularities were found.
Apr 24th–27th 2017	<i>Provincial Inspectorate for Environmental Protection, Tarnów Office (WIOŚ)</i>	EC II (CHP Plant II):	Environmental protection regulations	1 order was issued, containing 4 decisions to be implemented within 30 days. As Grupa Azoty S.A. challenged decision 1 included in the order, an appeal was duly filed with the competent Provincial Administrative Court, following the inspectorate's initial refusal to overturn the decision. The decision was reversed by the court. The other decisions, i.e. 2–4, were duly implemented, as notified to the Provincial Inspectorate for Environmental Protection (WIOŚ) by a letter dated June 12th 2017, Ref. No. TB/LSz/509/207.

May 8th–10th 2017	National Fund for Environmental Protection and Water Management (NFOSiGW)	EC II (CHP Plant II):	Monitoring the performance of contract No. 69/2014/Wn06/DA-XN-04/D	Post-inspection recommendations in progress.
May 17th–22nd 2017	County Sanitary Inspector, Tarnów Branch (PPIS)	Catalysts Business Unit	OHS conditions, compliance with regulations applicable to hazardous substances and mixtures, and assessment of the sanitary and technical condition of the facilities	No irregularities were found.
May 24th 2017	County Sanitary Inspector, Tarnów Branch (PPIS)	Water Treatment Station	Inspection of the sanitary and technical condition of the Water Treatment Station's premises and facilities in Tarnów, ul. Chemiczna	No irregularities were found.
Jun 6th–12th 2017	County Sanitary Inspector, Tarnów Branch (PPIS)	Power Centre – Boiler House and Coal Supply Division	OHS conditions, compliance with regulations applicable to hazardous substances and mixtures, and assessment of the sanitary and technical condition of the facilities	No irregularities were found.
Jun 9th 2017	Provincial Inspectorate for Environmental Protection, Tarnów Office (WIOŚ)	Plastics Segment – Sulfuric Acid Production Unit and Hydroxylamine Sulfate Plant Division	Compliance with environmental laws and regulations – inspection following an industrial accident which occurred on June 9th 2017	All post-inspection orders have been implemented.

Jun 12th–19th 2017	Municipal Headquarters of the State Fire Service in Tarnów (KM PSP)	Plastics Segment – Sulfuric Acid Production Unit and Hydroxylamine Sulfate Plant Division	Compliance with safety requirements at an upper-tier establishment	No reservations or recommendations were issued.
Jun 19th–26th 2017	County Sanitary Inspector, Tarnów Branch (PPIS)	Power Centre – Turbine House and Water Management Division	Inspection of OHS conditions, compliance with regulations applicable to hazardous substances and mixtures, and assessment of the sanitary and technical condition of the facilities	All post-inspection decisions have been implemented.
Jun 27th 2017	National Atomic Energy Agency	Grupa Azoty S.A.	Radiation safety inspection	No irregularities were found.
Jul 5th–10th 2017	County Sanitary Inspector, Tarnów Branch (PPIS)	Fertilizers Business Unit – Fertilizers Division	Inspection of OHS conditions, compliance with regulations applicable to hazardous substances and mixtures, and assessment of the sanitary and technical condition of the facilities	No irregularities were found.
Jul 7th 2017	Tarnów Municipal Office – Tax and Debt Collection Department	Grupa Azoty S.A.	Checking a property tax return for consistency with facts	No irregularities were found.
Jul 12th 2017	County Sanitary Inspector, Tarnów Branch (PPIS)	Logistics Centre – Fertilizers Storage and Packing Division	OHS conditions, compliance with regulations applicable to hazardous substances and mixtures, and assessment of the sanitary and technical condition of the facilities	No irregularities were found.

Jul 26th 2017	County Sanitary Inspector, Tarnów Branch (PPIS)	EC II (CHP Plant II)	Participation in the procedure to obtain an operating licence for a flue gas desulfurisation unit at CHP Plant II	No reservations
Jul 26th–Aug 2nd 2017	Municipal Headquarters of the State Fire Service in Tarnów (KM PSP)	EC II (CHP Plant II) flue gas desulfurisation unit	Assessment of compliance of the completed facilities with planning permission documents	No reservations or recommendations were issued.
Aug 7th–11th 2017	National Fund for Environmental Protection and Water Management (NFOŚiGW)	EC II (CHP Plant II):	Monitoring the performance of contract No. POIS 04.02.00-00-003/09 (commercial use of ashes at Zakłady Azotowe w Tarnowie-Mościcach S.A.)	All post-inspection recommendations have been implemented.
Aug 16th 2017	Provincial Inspectorate for Environmental Protection, Tarnów Office (WIOŚ)	EC II (CHP Plant II) flue gas desulfurisation unit	Environmental protection regulations	No post-inspection rulings issued.
Aug 18th 2017	County Sanitary Inspector, Tarnów Branch (PPIS)	Plastics Segment – Caprolactam Polymerisation Division – Polyamide plant II, 80 thousand t/y	Participation in the procedure to obtain an operating licence for the polyamide plant	No post-inspection decisions issued.
Sep 7th–13th 2017	Municipal Headquarters of the State Fire Service in Tarnów (KM PSP)	Fertilizers Business Unit – Granulation Plant	Assessment of compliance of the completed facilities with planning permission documents	No reservations or recommendations were issued.
Sep 15th–29th 2017	Provincial Inspectorate for Environmental Protection, Tarnów Office (WIOŚ)	Fertilizers Business Unit – Granulation Plant	Inspection at the Company's request of August 11th 2017, Ref. No. NAK/AKI/23/2017	Inspection completed. No post-inspection rulings issued as at March 28th 2018.

Sep 18th 2017	County Sanitary Inspector, Tarnów Branch (PPIS)	Power Centre – Turbine House and Water Management Division	Follow-up inspection to check implementation of the Tarnów County Sanitary Inspector's order of July 17th 2017, Section 1 a, b and c	No reservations or recommendations were issued.
Sep 19th 2017	County Sanitary Inspector, Tarnów Branch (PPIS)	Power Centre – Power Supply and Security Division	OHS conditions, compliance with regulations applicable to hazardous substances and mixtures, and assessment of the sanitary and technical condition of the facilities.	No reservations or recommendations were issued.
Sep 26th–Oct 2nd 2017	County Sanitary Inspector, Tarnów Branch (PPIS)	Plastics Business Segment – Production Unit in Tarnów – Caprolactam Polymerisation Division	OHS conditions, compliance with regulations applicable to hazardous substances and mixtures, and assessment of the sanitary and technical condition of the facilities.	A decision was issued, with the implementation deadline set for March 30th 2018.
Oct 4th 2017	County Sanitary Inspector, Tarnów Branch (PPIS)	Plastics Segment	Placement in service of granulated product distribution system.	No information on documents available.
Oct 4th–13th 2017	County Sanitary Inspector, Tarnów Branch (PPIS)	Corporate Fertilizer Sales Department – Fertilizers Trading Office – Poland	Compliance with regulations on chemical substances and mixtures – emergency inspection	No reservations or recommendations were issued.
Oct 9th 2017	Provincial Inspectorate for Environmental Protection, Tarnów Office (WIOŚ)	Plastics Segment – Sulfuric Acid Production Unit and Hydroxylamine Sulfate Plant Division	Environmental protection regulations	Inspection completed. Grupa Azoty S.A. submitted its comments on the inspection report. No post-inspection decisions were

				issued.
Oct 9th 2017	Municipal Headquarters of the State Fire Service in Tarnów (KM PSP)	Plastics Segment – Sulfuric Acid Production Unit and Hydroxylamine Sulfate Plant Division	Compliance with safety requirements at an upper-tier establishment, in accordance with the Environmental Protection Law	Inspection concluded with no reservations or recommendations.
Oct 9th 2017	National Labour Inspectorate	Grupa Azoty S.A.	Legal protection of labour, including OHS	All post-inspection recommendations have been implemented.
Oct 17th–31st 2017	County Sanitary Inspector, Tarnów Branch (PPIS)	Cyclohexanone Division	OHS conditions, compliance with regulations applicable to hazardous substances and mixtures, and assessment of the sanitary and technical condition of the facilities	No decisions issued.
Nov 9th 2017	Supreme Audit Office, Lublin Branch	Grupa Azoty S.A.	State-owned companies' spending on sponsorship and media activities and consultancy services	Post-inspection statement due to irregularities found. Awaiting a notification from the Supreme Audit Office, Regional Branch in Katowice.
Nov 17th–23rd 2017	County Sanitary Inspector, Tarnów Branch (PPIS)	Fertilizers Business Unit – Ammonia Division	OHS conditions, compliance with regulations applicable to hazardous substances and mixtures, and assessment of the sanitary and technical condition of the facilities	A decision was issued, with the implementation deadline set for June 30th 2018.

Nov 23rd–28th 2017	County Sanitary Inspector, Tarnów Branch (PPIS)	Fertilizers Business Unit – Nitric Acid Division	OHS conditions, compliance with regulations applicable to hazardous substances and mixtures, and assessment of the sanitary and technical condition of the facilities	No decisions issued.
Dec 15th 2017	County Sanitary Inspector, Tarnów Branch (PPIS)	Ammonium Sulfate Division	OHS conditions, compliance with regulations applicable to hazardous substances and mixtures, and assessment of the sanitary and technical condition of the facilities	No decisions issued.

CONCLUSIONS:

The Supervisory Board positively assesses the following systems operated by the Company:

- internal control system,
- risk management system,
- compliance system,
- internal audit system.

At the same time, the Supervisory Board has determined that the solutions in place should be continuously improved based on experience gathered in the performance of these processes and on the Audit Committee's recommendations.

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

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Roman Romaniszyn

Prepared by:
Katarzyna Cebula