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


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
- 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


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:

3. ASSESSMENT OF RISK MANAGEMENT

Enterprise risk management


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

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’;

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’
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, SOx 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:**

**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,

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:
- 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.


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:**
<table>
<thead>
<tr>
<th>Date</th>
<th>Inspecting authority/body</th>
<th>Organisational unit subject to inspection</th>
<th>Scope</th>
<th>Outcome</th>
</tr>
</thead>
<tbody>
<tr>
<td>Jan 11th–20th 2017</td>
<td>Municipal Headquarters of the State Fire Service in Tarnów (KM PSP)</td>
<td>Company Fire Brigade</td>
<td>Compliance with fire regulations, evaluation of compliance with safety requirements at an upper-tier establishment (approval of the Safety Report)</td>
<td>No irregularities were found.</td>
</tr>
<tr>
<td>Jan 27th–31st 2017</td>
<td>County Sanitary Inspector, Tarnów Branch (PPIS)</td>
<td>Safety and Environmental Protection Office</td>
<td>OHS conditions, compliance with regulations applicable to hazardous substances and mixtures, and assessment of the sanitary and technical condition of the facilities</td>
<td>No irregularities were found.</td>
</tr>
<tr>
<td>Feb 8th–14th 2017</td>
<td>County Sanitary Inspector, Tarnów Branch (PPIS)</td>
<td>Plastics Segment – Sulfuric Acid Production Unit and Hydroxylamine Sulfate Plant Division</td>
<td>Workplace compliance with regulations applicable to hazardous substances and mixtures, and assessment of the sanitary and technical condition of the facilities</td>
<td>No irregularities were found.</td>
</tr>
<tr>
<td>Mar 9th 2017</td>
<td>Municipal Police Headquarters in Tarnów</td>
<td>Grupa Azoty S.A.</td>
<td>provision of information on the sale of ZWRI Sp. z o.o., ZETO, and Elzat Sp. z o.o.</td>
<td>No post-inspection report has been issued to date.</td>
</tr>
<tr>
<td>Date</td>
<td>Agency</td>
<td>Segment/Division</td>
<td>Details</td>
<td>Irregularities Found</td>
</tr>
<tr>
<td>-----------------</td>
<td>---------------------------------------------</td>
<td>-------------------------------------------------------</td>
<td>-------------------------------------------------------------------------</td>
<td>-----------------------</td>
</tr>
<tr>
<td>Mar 16th–21st</td>
<td>County Sanitary Inspector, Tarnów Branch (PPIS)</td>
<td>Plastics Segment – Lactam Division</td>
<td>OHS conditions, compliance with regulations applicable to hazardous substances and mixtures, and assessment of the sanitary and technical condition of the facilities.</td>
<td>No irregularities were found.</td>
</tr>
<tr>
<td>Apr 18th–24th</td>
<td>County Sanitary Inspector, Tarnów Branch (PPIS)</td>
<td>Plastics Segment – Casings and Modified Granules Division</td>
<td>OHS conditions, compliance with regulations applicable to hazardous substances and mixtures, and assessment of the sanitary and technical condition of the facilities.</td>
<td>No irregularities were found.</td>
</tr>
<tr>
<td>Apr 24th–27th</td>
<td>Provincial Inspectorate for Environmental Protection, Tarnów Office (WIOŚ)</td>
<td>EC II (CHP Plant II):</td>
<td>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.</td>
<td>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.</td>
</tr>
<tr>
<td>Date Range</td>
<td>Agency/Inspector</td>
<td>Division/Unit</td>
<td>Task Description</td>
<td>Findings/Results</td>
</tr>
<tr>
<td>---------------------</td>
<td>------------------------------------------------------</td>
<td>---------------------------------------------------</td>
<td>----------------------------------------------------------------------------------</td>
<td>------------------------------------------------------</td>
</tr>
<tr>
<td>May 17th–22nd 2017</td>
<td>County Sanitary Inspector, Tarnów Branch (PPIS)</td>
<td>Catalysts Business Unit</td>
<td>OHS conditions, compliance with regulations applicable to hazardous substances and mixtures, and assessment of the sanitary and technical condition of the facilities</td>
<td>No irregularities were found.</td>
</tr>
<tr>
<td>May 24th 2017</td>
<td>County Sanitary Inspector, Tarnów Branch (PPIS)</td>
<td>Water Treatment Station</td>
<td>Inspection of the sanitary and technical condition of the Water Treatment Station’s premises and facilities in Tarnów, ul. Chemiczna</td>
<td>No irregularities were found.</td>
</tr>
<tr>
<td>Jun 6th–12th 2017</td>
<td>County Sanitary Inspector, Tarnów Branch (PPIS)</td>
<td>Power Centre – Boiler House and Coal Supply Division</td>
<td>OHS conditions, compliance with regulations applicable to hazardous substances and mixtures, and assessment of the sanitary and technical condition of the facilities</td>
<td>No irregularities were found.</td>
</tr>
<tr>
<td>Jun 9th 2017</td>
<td>Provincial Inspectorate for Environmental Protection, Tarnów Office (WIOŚ)</td>
<td>Plastics Segment – Sulfuric Acid Production Unit and Hydroxylamine Sulfate Plant Division</td>
<td>Compliance with environmental laws and regulations – inspection following an industrial accident which occurred on June 9th 2017</td>
<td>All post-inspection orders have been implemented.</td>
</tr>
<tr>
<td>Date</td>
<td>Authority</td>
<td>Location/Division</td>
<td>Activity/Inspection Details</td>
<td>Results</td>
</tr>
<tr>
<td>--------------</td>
<td>------------------------------------</td>
<td>--------------------------------------------------------</td>
<td>-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------</td>
<td>---------------------------------------------------------------------------------------------------</td>
</tr>
<tr>
<td>Jun 12th–19th 2017</td>
<td>Municipal Headquarters of the State Fire Service in Tarnów (KM PSP)</td>
<td>Plastics Segment – Sulfuric Acid Production Unit and Hydroxylamine Sulfate Plant Division</td>
<td>Compliance with safety requirements at an upper-tier establishment</td>
<td>No reservations or recommendations were issued.</td>
</tr>
<tr>
<td>Jun 19th–26th 2017</td>
<td>County Sanitary Inspector, Tarnów Branch (PPIS)</td>
<td>Power Centre – Turbine House and Water Management Division</td>
<td>Inspection of OHS conditions, compliance with regulations applicable to hazardous substances and mixtures, and assessment of the sanitary and technical condition of the facilities</td>
<td>All post-inspection decisions have been implemented.</td>
</tr>
<tr>
<td>Jun 27th 2017</td>
<td>National Atomic Energy Agency</td>
<td>Grupa Azoty S.A.</td>
<td>Radiation safety inspection</td>
<td>No irregularities were found.</td>
</tr>
<tr>
<td>Jul 5th–10th 2017</td>
<td>County Sanitary Inspector, Tarnów Branch (PPIS)</td>
<td>Fertilizers Business Unit – Fertilizers Division</td>
<td>Inspection of OHS conditions, compliance with regulations applicable to hazardous substances and mixtures, and assessment of the sanitary and technical condition of the facilities</td>
<td>No irregularities were found.</td>
</tr>
<tr>
<td>Jul 7th 2017</td>
<td>Tarnów Municipal Office – Tax and Debt Collection Department</td>
<td>Grupa Azoty S.A.</td>
<td>Checking a property tax return for consistency with facts</td>
<td>No irregularities were found.</td>
</tr>
<tr>
<td>Jul 12th 2017</td>
<td>County Sanitary Inspector, Tarnów Branch (PPIS)</td>
<td>Logistics Centre – Fertilizers Storage and Packing Division</td>
<td>OHS conditions, compliance with regulations applicable to hazardous substances and mixtures, and assessment of the sanitary and technical condition of the facilities</td>
<td>No irregularities were found.</td>
</tr>
<tr>
<td>Date</td>
<td>Agency</td>
<td>Project/Unit</td>
<td>Activity</td>
<td>Outcome</td>
</tr>
<tr>
<td>--------------</td>
<td>------------------------------------------------------------------------</td>
<td>------------------------------------------------------------------------------</td>
<td>--------------------------------------------------------------------------</td>
<td>----------------------------------------------</td>
</tr>
<tr>
<td>Jul 26th 2017</td>
<td>County Sanitary Inspector, Tarnów Branch (PPIS)</td>
<td>EC II (CHP Plant II)</td>
<td>Participation in the procedure to obtain an operating licence for a flue gas desulfurisation unit at CHP Plant II</td>
<td>No reservations</td>
</tr>
<tr>
<td>Jul 26th–Aug 2nd 2017</td>
<td>Municipal Headquarters of the State Fire Service in Tarnów (KM PSP)</td>
<td>EC II (CHP Plant II) flue gas desulfurisation unit</td>
<td>Assessment of compliance of the completed facilities with planning permission documents</td>
<td>No reservations or recommendations were issued.</td>
</tr>
<tr>
<td>Aug 7th–11th 2017</td>
<td>National Fund for Environmental Protection and Water Management (NFOŚiGW)</td>
<td>EC II (CHP Plant II):</td>
<td>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.)</td>
<td>All post-inspection recommendations have been implemented.</td>
</tr>
<tr>
<td>Aug 16th 2017</td>
<td>Provincial Inspectorate for Environmental Protection, Tarnów Office (WIOŚ)</td>
<td>EC II (CHP Plant II) flue gas desulfurisation unit</td>
<td>Environmental protection regulations</td>
<td>No post-inspection rulings issued.</td>
</tr>
<tr>
<td>Aug 18th 2017</td>
<td>County Sanitary Inspector, Tarnów Branch (PPIS)</td>
<td>Plastics Segment – Caprolactam Polymerisation Division – Polyamide plant II, 80 thousand t/y</td>
<td>Participation in the procedure to obtain an operating licence for the polyamide plant</td>
<td>No post-inspection decisions issued.</td>
</tr>
<tr>
<td>Sep 7th–13th 2017</td>
<td>Municipal Headquarters of the State Fire Service in Tarnów (KM PSP)</td>
<td>Fertilizers Business Unit – Granulation Plant</td>
<td>Assessment of compliance of the completed facilities with planning permission documents</td>
<td>No reservations or recommendations were issued.</td>
</tr>
<tr>
<td>Date</td>
<td>Inspector/Office</td>
<td>Division</td>
<td>Description</td>
<td>Recommendations</td>
</tr>
<tr>
<td>------------</td>
<td>----------------------------------------------------</td>
<td>---------------------------------------------------------------------------</td>
<td>------------------------------------------------------------------------------</td>
<td>-----------------</td>
</tr>
<tr>
<td>Sep 18th 2017</td>
<td>County Sanitary Inspector, Tarnów Branch (PPIS)</td>
<td>Power Centre – Turbine House and Water Management Division</td>
<td>Follow-up inspection to check implementation of the Tarnów County Sanitary Inspector’s order of July 17th 2017, Section 1 a, b and c</td>
<td>No reservations or recommendations were issued.</td>
</tr>
<tr>
<td>Sep 19th 2017</td>
<td>County Sanitary Inspector, Tarnów Branch (PPIS)</td>
<td>Power Centre – Power Supply and Security Division</td>
<td>OHS conditions, compliance with regulations applicable to hazardous substances and mixtures, and assessment of the sanitary and technical condition of the facilities.</td>
<td>No reservations or recommendations were issued.</td>
</tr>
<tr>
<td>Sep 26th–Oct 2nd 2017</td>
<td>County Sanitary Inspector, Tarnów Branch (PPIS)</td>
<td>Plastics Business Segment – Production Unit in Tarnów – Caprolactam Polymerisation Division</td>
<td>OHS conditions, compliance with regulations applicable to hazardous substances and mixtures, and assessment of the sanitary and technical condition of the facilities.</td>
<td>A decision was issued, with the implementation deadline set for March 30th 2018.</td>
</tr>
<tr>
<td>Oct 4th–13th 2017</td>
<td>County Sanitary Inspector, Tarnów Branch (PPIS)</td>
<td>Corporate Fertilizer Sales Department – Fertilizers Trading Office – Poland</td>
<td>Compliance with regulations on chemical substances and mixtures – emergency inspection</td>
<td>No reservations or recommendations were issued.</td>
</tr>
<tr>
<td>Oct 9th 2017</td>
<td>Provincial Inspectorate for Environmental Protection, Tarnów Office (WIOS)</td>
<td>Plastics Segment – Sulfuric Acid Production Unit and Hydroxylamine Sulfate Plant Division</td>
<td>Environmental protection regulations</td>
<td>Inspection completed. Grupa Azoty S.A. submitted its comments on the inspection report. No post-inspection decisions were</td>
</tr>
<tr>
<td>Date</td>
<td>Entity</td>
<td>Division/Unit</td>
<td>Description</td>
<td>Result</td>
</tr>
<tr>
<td>---------------</td>
<td>---------------------------------------------</td>
<td>---------------------------------------------------</td>
<td>----------------------------------------------------------------------------</td>
<td>------------------------------------------------------------------------</td>
</tr>
<tr>
<td>Oct 9th 2017</td>
<td>Municipal Headquarters of the State Fire</td>
<td>Plastics Segment - Sulfuric Acid Production Unit</td>
<td>Compliance with safety requirements at an upper-tier establishment, in</td>
<td>Inspection concluded with no reservations or recommendations.</td>
</tr>
<tr>
<td></td>
<td>Service in Tarnów (KM PSP)</td>
<td>and Hydroxylamine Sulfate Plant Division</td>
<td>accordance with the Environmental Protection Law</td>
<td></td>
</tr>
<tr>
<td>Oct 9th 2017</td>
<td>National Labour Inspectorate</td>
<td>Grupa Azoty S.A.</td>
<td>Legal protection of labour, including OHS</td>
<td>All post-inspection recommendations have been implemented.</td>
</tr>
<tr>
<td>Oct 17th–31st</td>
<td>County Sanitary Inspector, Tarnów Branch</td>
<td>Cyclohexanone Division</td>
<td>OHS conditions, compliance with regulations applicable to hazardous</td>
<td>No decisions issued.</td>
</tr>
<tr>
<td>2017</td>
<td>(PPIS)</td>
<td></td>
<td>substances and mixtures, and assessment of the sanitary and technical</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>condition of the facilities</td>
<td></td>
</tr>
<tr>
<td>Nov 9th 2017</td>
<td>Supreme Audit Office, Lublin Branch</td>
<td>Grupa Azoty S.A.</td>
<td>State-owned companies’ spending on sponsorship and media activities and</td>
<td>Post-inspection statement due to irregularities found.</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>consultancy services</td>
<td>Awaiting a notification from the Supreme Audit Office, Regional</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>Branch in Katowice.</td>
</tr>
<tr>
<td>Nov 17th–23rd</td>
<td>County Sanitary Inspector, Tarnów Branch</td>
<td>Fertilizers Business Unit – Ammonia Division</td>
<td>OHS conditions, compliance with regulations applicable to hazardous</td>
<td>A decision was issued, with the implementation deadline set for June</td>
</tr>
<tr>
<td>2017</td>
<td>(PPIS)</td>
<td></td>
<td>substances and mixtures, and assessment of the sanitary and technical</td>
<td>30th 2018.</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>condition of the facilities</td>
<td></td>
</tr>
<tr>
<td>Date</td>
<td>County Sanitary Inspector, Tarnów Branch (PPIS)</td>
<td>Business Unit</td>
<td>OHS conditions, compliance with regulations applicable to hazardous substances and mixtures, and assessment of the sanitary and technical condition of the facilities</td>
<td>No decisions issued.</td>
</tr>
<tr>
<td>--------------------</td>
<td>-------------------------------------------------</td>
<td>-------------------------</td>
<td>---------------------------------------------------------------------------------------------------------------------------------</td>
<td>----------------------</td>
</tr>
<tr>
<td>Nov 23rd–28th 2017</td>
<td>Fertilizers Business Unit – Nitric Acid Division</td>
<td></td>
<td>No decisions issued.</td>
<td></td>
</tr>
<tr>
<td>Dec 15th 2017</td>
<td>County Sanitary Inspector, Tarnów Branch (PPIS)</td>
<td>Ammonium Sulfate Division</td>
<td>No decisions issued.</td>
<td></td>
</tr>
</tbody>
</table>

**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.
Tomasz Karusewicz
/Chairman of the Supervisory Board/

Michał Gabryel
/Deputy Chairman of the Supervisory Board/

Zbigniew Paprocki
/Secretary of the Supervisory Board/

Piotr Czajkowski

Monika Fill

Robert Kapka

Bartłomiej Litwińczuk

Ireneusz Purgacz

Roman Romaniszyn

Prepared by:
Katarzyna Cebula