The file contains the following files in the following order:

1. Resolution of the Company’s Supervisory Board

2. Report of the Supervisory Board of Grupa Azoty S.A. on assessment of the following statements and reports for 2018: the separate financial statements, the consolidated financial statements, the Directors’ Report on the operations of Grupa Azoty S.A. and the Grupa Azoty Group, the consolidated report on payments to governments, the non-financial statement of the Grupa Azoty Group and the Management Board’s proposal on allocation of net profit for 2018.
RESOLUTION NO. 338/X/2019 OF THE SUPERVISORY BOARD OF GRUPA AZOTY S.A.
dated May 17th 2019

on: adoption of the ‘Report of the Supervisory Board of Grupa Azoty S.A. on assessment of the following statements and reports for 2018: the separate financial statements, the consolidated financial statements, the Directors' Report on the operations of Grupa Azoty S.A. and the Grupa Azoty Group, the consolidated report on payments to governments, the non-financial statement of the Grupa Azoty Group and the Management Board’s proposal on allocation of net profit for 2018’

Acting pursuant to Art. 382.3 of the Commercial Companies Code and Art. 32.1.8 and 32.1.9 in conjunction with Art. 50.21 of the Articles of Association of Grupa Azoty S.A. (the “Company”), the Company’s Supervisory Board

resolves as follows:

Section 1
The Supervisory Board hereby adopts the ‘Report of the Supervisory Board of Grupa Azoty S.A. on assessment of the following statements and reports for 2018: the separate financial statements, the consolidated financial statements, the Directors' Report on the operations of Grupa Azoty S.A. and the Grupa Azoty Group, the consolidated report on payments to governments, the non-financial statement of the Grupa Azoty Group and the Management Board’s proposal on allocation of net profit for 2018’ in the wording attached hereto as an Appendix.

Section 2
The Supervisory Board submits the report referred to in Section 1 to the Annual General Meeting for consideration.

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.

<p>| | | |</p>
<table>
<thead>
<tr>
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</thead>
<tbody>
<tr>
<td>Michał Gabryel</td>
<td>Zbigniew Paprocki</td>
<td>Paweł Bielski</td>
</tr>
<tr>
<td>Deputy Chairman of the</td>
<td>Secretary of the</td>
<td></td>
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<tr>
<td>Supervisory Board</td>
<td>Supervisory Board</td>
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<tr>
<td>Piotr Czajkowski</td>
<td>Monika Fill</td>
<td>Robert Kapka</td>
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<tr>
<td>Bartłomiej Litwińczuk</td>
<td>Marcin Pawlicki</td>
<td>Roman Romaniszyn</td>
</tr>
</tbody>
</table>
Report of the Supervisory Board of Grupa Azoty S.A. on assessment of the following statements and reports for 2018: the separate financial statements, the consolidated financial statements, the Directors’ Report on the operations of Grupa Azoty S.A. and the Grupa Azoty Group, the consolidated report on payments to governments, the non-financial statement of the Grupa Azoty Group and the Management Board’s proposal on allocation of net profit for 2018.

Adopted by Resolution No. 338/X/2019 of the Supervisory Board of Grupa Azoty S.A. of the tenth term of office, dated May 17th 2019

Tarnów, May 2019
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8. ASSESSMENT OF MANAGEMENT BOARD’S PROPOSAL ON ALLOCATION OF NET PROFIT FOR 2018 ........................................................................................................ 21
1. INTRODUCTION

Pursuant to Art. 382.3 of the Commercial Companies Code, Par. 70.1.14 and Par. 71.1.12 of the Minister of Finance's Regulation on current and periodic information to be published by issuers of securities and conditions for recognition as equivalent of information whose disclosure is required under the laws of a non-member state, dated March 29th 2018 (Dz.U. of 2018, item 757), and Art. 32.1.6–9 of the Articles of Association of Grupa Azoty S.A. (the "Company"), the Company’s Supervisory Board (the “Supervisory Board”), issued a positive opinion on the following statements and reports:

1. the separate financial statements of Grupa Azoty S.A. for the 12 months ended December 31st 2018;
2. the consolidated financial statements of the Grupa Azoty Group (the “Group”) for the 12 months ended December 31st 2018;
3. the Directors’ Report on Grupa Azoty S.A.’s and the Grupa Azoty Group’s operations in the 12 months ended December 31st 2018;
4. the consolidated report on payments to governments for 2018;

Additionally, the Supervisory Board assessed the Company Management Board proposal on allocation of net profit for 2018.

In accordance with the regulations referred to above, the Supervisory Board submits to the Annual General Meeting of Grupa Azoty S.A. this ‘Report of the Supervisory Board of Grupa Azoty S.A. for the Annual General Meeting on assessment of the following statements and reports for 2018: the separate financial statements, the consolidated financial statements, the Directors’ Report on the operations of Grupa Azoty S.A. and the Grupa Azoty Group, the consolidated report on payments to governments, the non-financial statement of the Grupa Azoty Group and the Management Board’s proposal on allocation of net profit for 2018’.

The report contains a summary of the Supervisory Board’s analysis and assessment of all statements and reports of Grupa Azoty S.A. (the “Company”) for 2018, and an assessment of the Management Board’s proposal on allocation of profit for 2018.

The Company’s separate financial statements and the Group’s consolidated financial statements for 2018 were audited by Ernst & Young Audyt Polska spółka z ograniczoną odpowiedzialnością spółka komandytowa of Warsaw (the “auditor” or “EY”), which was selected by the Supervisory Board to audit the financial statements for 2017, 2018 and 2019.

The auditor was responsible for auditing the financial statements and the Directors’ Report on the operations of Grupa Azoty S.A. and the Grupa Azoty Group in the financial year 2018 for conformity with the adopted accounting policies and compliance with the applicable laws. The findings of the audit are included in the auditor’s reports, and additional detailed information on the organisation and progress of the audit is included in the additional report for the Supervisory Board’s Audit Committee.
2. SUMMARY OF THE ANALYSIS AND ASSESSMENT OF THE SEPARATE FINANCIAL STATEMENTS

GENERAL

The Supervisory Board has examined and analysed the separate full-year financial statements of the Company for the 12 months ended December 31st 2018, prepared in accordance with International Financial Reporting Standards as endorsed by the European Union, comprising:

1) Separate statement of financial position as at December 31st 2018, showing total assets and total equity and liabilities of PLN 8,603,645 thousand,

2) Separate statement of profit or loss and other comprehensive income for the period January 1st–December 31st 2018, showing a net profit of PLN 171,064 thousand and positive comprehensive income of PLN 154,433 thousand,

3) Separate statement of changes in equity for the financial year January 1st–December 31st 2018, showing an increase in equity of PLN 25,932 thousand,

4) Separate statement of cash flows for the period January 1st–December 31st 2018, showing an increase in cash of PLN 428,269 thousand,

5) Notes to the separate financial statements.

The separate financial statements of the Company for the financial year 2018 contain:

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

REVENUE, EXPENSES AND FINANCIAL RESULTS

Presented below are the key items of the 2018 statement of profit or loss along with the comparative data for 2017 (all figures in PLN ‘000):

<table>
<thead>
<tr>
<th></th>
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<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue</td>
<td>1,825,771</td>
<td>1,681,525</td>
<td>144,246</td>
<td>8.6</td>
</tr>
<tr>
<td>Cost of sales</td>
<td>(1,499,486)</td>
<td>(1,265,543)</td>
<td>(233,943)</td>
<td>18.5</td>
</tr>
<tr>
<td>Gross profit</td>
<td>326,285</td>
<td>415,982</td>
<td>(89,697)</td>
<td>(21.6)</td>
</tr>
<tr>
<td>Net profit</td>
<td>171,064</td>
<td>354,793</td>
<td>(183,729)</td>
<td>(51.8)</td>
</tr>
<tr>
<td>EBIT</td>
<td>47,761</td>
<td>144,341</td>
<td>(96,580)</td>
<td>(66.9)</td>
</tr>
<tr>
<td>EBITDA</td>
<td>159,971</td>
<td>245,009</td>
<td>(85,038)</td>
<td>(34.7)</td>
</tr>
</tbody>
</table>

On year-on-year revenue and cost of sales increase of 8.6% and 18.5%, respectively, the Company reported gross profit of PLN 326,285 thousand. The significant increase in cost of sales is primarily attributable to higher prices of basic raw materials (natural gas and coal), electricity and CO₂ emission allowances, accompanied by a drop in demand for mineral fertilizers which made it impossible to offset the increase in production costs by increasing selling prices.
The Company’s revenue from sales of products in 2018 was driven primarily by the market situation in the Agro Fertilizers and Plastics segments. Revenue by segment (sum of revenue from inter-segment sales and external sales, PLN '000):

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Agro Fertilizers</td>
<td>927,762</td>
<td>956,433</td>
<td>(28,671)</td>
<td>(3.0)</td>
</tr>
<tr>
<td>Plastics</td>
<td>1,398,920</td>
<td>1,141,528</td>
<td>257,392</td>
<td>22.5</td>
</tr>
<tr>
<td>Energy</td>
<td>562,807</td>
<td>484,260</td>
<td>78,547</td>
<td>16.2</td>
</tr>
<tr>
<td>Other</td>
<td>67,946</td>
<td>61,494</td>
<td>6,452</td>
<td>10.5</td>
</tr>
<tr>
<td>Total</td>
<td>2,957,435</td>
<td>2,643,715</td>
<td>313,720</td>
<td>11.9</td>
</tr>
</tbody>
</table>

Revenue rose significantly year on year across all segments with the exception of Agro Fertilizers, where revenue fell by 3%. The decrease was due to low fertilizer prices prevailing at the beginning of 2018 in view of the need to hedge against the risk of rising imports and reduced supply of nitrate fertilizers after an industrial failure.

**STRUCTURE OF ASSETS, EQUITY AND LIABILITIES**

In 2018, the Company’s assets increased to PLN 8,603,645 thousand, i.e. by PLN 1,732,512 thousand, relative to the end of 2017. Year on year, the most significant changes in assets included:

- PLN 1,145,763 thousand (29.6%) increase in shares, mainly due to the acquisition of 100% of shares in Goat TopCo (Compo Expert) of Germany, as well as capital infusions into Grupa Azoty Siarkopol, PDH Polska and Grupa Azoty Compounding;
- PLN 428,269 thousand (74.8%) increase in cash and cash equivalents, attributable to the inclusion of Goat TopCo (Compo Expert) in cash pooling;
- PLN 95,559 thousand (6.1%) increase in property, plant and equipment following completion of investment tasks.

Year on year, the most significant changes in equity and liabilities in the reporting period included:

- PLN 1,537,069 thousand (92.1%) increase in long- and short-term borrowings, following acquisition of Goat TopCo (Compo Expert) and implementation of a material capex programme;
- PLN 72,065 thousand (25.7%) increase in trade and other payables, mainly due to higher liabilities under purchase of raw materials;
- PLN 14,272 thousand (54.1%) increase in long-term grants on account of grants received for the construction of the Chemical Technology and Development Centre.

**KEY FINANCIAL RATIOS**

*Profitability ratios [%]*

<table>
<thead>
<tr>
<th></th>
<th>2018</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gross profit margin</td>
<td>17.9</td>
<td>24.7</td>
</tr>
<tr>
<td>EBIT margin</td>
<td>2.6</td>
<td>8.6</td>
</tr>
<tr>
<td>EBITDA margin</td>
<td>8.8</td>
<td>14.6</td>
</tr>
<tr>
<td>Net profit margin</td>
<td>9.4</td>
<td>21.1</td>
</tr>
</tbody>
</table>
ROA | 2.0 | 5.2  
ROCE | 0.7 | 2.3  
ROE | 3.6 | 7.5  
Return on non-current assets | 2.4 | 6.1  

**Liquidity ratios**

<table>
<thead>
<tr>
<th></th>
<th>2018</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Current ratio</td>
<td>1.2</td>
<td>1.8</td>
</tr>
<tr>
<td>Quick ratio</td>
<td>1.0</td>
<td>1.4</td>
</tr>
<tr>
<td>Cash ratio</td>
<td>0.8</td>
<td>1.0</td>
</tr>
</tbody>
</table>

**Operational efficiency ratios**

<table>
<thead>
<tr>
<th></th>
<th>2018</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Inventory turnover</td>
<td>59</td>
<td>60</td>
</tr>
<tr>
<td>Average collection period</td>
<td>47</td>
<td>46</td>
</tr>
<tr>
<td>Average payment period</td>
<td>85</td>
<td>80</td>
</tr>
<tr>
<td>Cash conversion cycle</td>
<td>21</td>
<td>26</td>
</tr>
</tbody>
</table>

**Debt ratios [%]**

<table>
<thead>
<tr>
<th></th>
<th>2018</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total debt ratio</td>
<td>44.3</td>
<td>30.7</td>
</tr>
<tr>
<td>Long-term debt ratio</td>
<td>28.6</td>
<td>21.6</td>
</tr>
<tr>
<td>Short-term debt ratio</td>
<td>15.8</td>
<td>9.1</td>
</tr>
<tr>
<td>Equity-to-debt ratio</td>
<td>125.5</td>
<td>225.8</td>
</tr>
<tr>
<td>Interest cover ratio</td>
<td>520.3</td>
<td>1211.8</td>
</tr>
</tbody>
</table>

These ratios indicate a significant decline in the Company’s profitability, which is a consequence of poorer financial performance. Also, liquidity ratios declined materially, while debt ratios went up. The changes are mainly attributable to a significant increase in the Company’s debt as at December 31st 2018 following the acquisition of shares in Goat TopCo (Compo Expert) of Germany in November 2018. However, the ratios are at acceptable levels and do not indicate any liquidity risk.

**ASSESSMENT WITH A STATEMENT OF REASONS**

The Supervisory Board assessed the Company’s separate financial statements for the 12 months ended December 31st 2018 and determined that they contained the information required by applicable laws and were consistent with facts.

The financial statements were reviewed, analysed and assessed by the Audit Committee of the Company’s Supervisory Board. The Audit Committee, in the performance of the obligations imposed by the Act on Statutory Auditors, Audit Firms, and Public Oversight of May 11th 2017 (Dz.U. of 2017, item 1089, as amended, the “Act”) supervised the financial reporting processes, effectiveness of internal control and risk management systems as well as internal
audit processes, with particular focus on ensuring reliability of the financial statements and their compliance with relevant legal requirements.

In the course of the audit of the financial statements, the Audit Committee held regular meetings with representatives of the audit firm responsible for the audit of Grupa Azoty S.A.’s financial statements and with representatives of the Company’s financial staff, monitoring the process of preparation and audit of the financial statements and discussing the key matters. In addition, the Audit Committee read the audit firm’s audit report on the financial statements and the additional report prepared for the Audit Committee and the Company’s management in accordance with Regulation (EU) No 537/2014 of the European Parliament and of the Council of 16 April 2014 on specific requirements regarding statutory audit of public-interest entities and repealing Commission Decision 2005/909/EC (Official Journal of the European Union L 158/77, the “Regulation”) and the requirements stipulated in the Act. As a result of its work, the Audit Committee recommended that the Company’s Supervisory Board issue a positive opinion on the Company’s separate financial statements for 2018.

The Supervisory Board’s assessment of the Company’s separate financial statements is based on a positive recommendation from the Audit Committee and the auditor’s report.

Based on the procedures described above as well as the additional explanations received from the Company’s Management Board and the Company’s auditor, the Supervisory Board issued a positive opinion on the Company’s separate financial statements for the 12 months ended December 31st 2018, submitted by the Management Board.

3. SUMMARY OF THE ANALYSIS AND ASSESSMENT OF THE CONSOLIDATED FINANCIAL STATEMENTS

GENERAL

The Supervisory Board has examined and analysed the full-year consolidated financial statements of the Group for the 12 months ended December 31st 2018, prepared in accordance with International Financial Reporting Standards as endorsed by the European Union, comprising:

1. Consolidated statement of financial position as at December 31st 2018, showing total assets and total equity and liabilities of PLN 14,160,469 thousand,

2. Consolidated statement of profit or loss and other comprehensive income for the period January 1st–December 31st 2018, showing a net profit of PLN 7,650 thousand and negative total comprehensive income of PLN 18,130 thousand,

3. Consolidated statement of changes in equity for the financial year January 1st–December 31st 2018, showing a decrease in equity of PLN 115,181 thousand,

4. Consolidated statement of cash flows for the period January 1st–December 31st 2018, showing a decrease in cash of PLN 239,353 thousand,

5. Notes to the consolidated financial statements.

The consolidated financial statements of the Grupa Azoty Group for the financial year 2018 contain:

- information about the Grupa Azoty Group, including its organisational structure,
- preliminary accounting for the acquisition price of Goat TopCo GmbH,
- description of significant accounting policies,
- notes to the consolidated financial statements.
**REVENUE, EXPENSES AND FINANCIAL RESULTS**

Presented below are the key 2018 financials along with the comparative data for 2017 (all figures in PLN ‘000):

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue</td>
<td>9,998,967</td>
<td>9,617,495</td>
<td>381,472</td>
<td>4.0</td>
</tr>
<tr>
<td>Cost of sales</td>
<td>(8,406,424)</td>
<td>(7,457,734)</td>
<td>(948,690)</td>
<td>12.7</td>
</tr>
<tr>
<td>Gross profit</td>
<td>1,592,543</td>
<td>2,159,761</td>
<td>(567,218)</td>
<td>(26.3)</td>
</tr>
<tr>
<td>Net profit</td>
<td>7,650</td>
<td>488,826</td>
<td>(481,176)</td>
<td>(98.4)</td>
</tr>
<tr>
<td>EBIT</td>
<td>80,991</td>
<td>597,214</td>
<td>(516,223)</td>
<td>(86.4)</td>
</tr>
<tr>
<td>EBITDA</td>
<td>764,442</td>
<td>1,186,886</td>
<td>(422,444)</td>
<td>(35.6)</td>
</tr>
</tbody>
</table>

With revenue up 4.0% year on year and cost of sales growing relatively faster (up 12.7%), the Group reported a gross profit lower by PLN 567,218 thousand (26.3%) relative to 2017.

Cost increase is the result of adverse external factors, including large price increases for natural gas, electricity and CO₂ emission allowances.

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

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Agro Fertilizers</td>
<td>7,496,606</td>
<td>7,191,719</td>
<td>304,887</td>
<td>4.2</td>
</tr>
<tr>
<td>Plastics</td>
<td>1,937,433</td>
<td>1,734,705</td>
<td>202,728</td>
<td>11.7</td>
</tr>
<tr>
<td>Chemicals</td>
<td>4,103,175</td>
<td>3,671,453</td>
<td>431,722</td>
<td>11.8</td>
</tr>
<tr>
<td>Energy</td>
<td>3,259,098</td>
<td>2,762,207</td>
<td>496,891</td>
<td>18.0</td>
</tr>
<tr>
<td>Other</td>
<td>1,142,658</td>
<td>992,301</td>
<td>150,357</td>
<td>15.1</td>
</tr>
<tr>
<td>Total</td>
<td>17,938,910</td>
<td>16,352,385</td>
<td>1,586,525</td>
<td>9.7</td>
</tr>
</tbody>
</table>

The key reasons for changes between 2018 and 2017 in each segment are as follows:

**Agro Fertilizers** – higher costs of gas and CO₂ emission allowances in Q4 2018 partially offset by higher selling prices and consolidation of Goat TopCo (Campo Expert) since November 26th 2018.

**Plastics** – launch of additional production from the new Polyamide II unit.

**Chemicals** – rising prices of raw materials.

**Energy** – higher intra-Group sales due to higher prices of energy commodities and CO₂ emission allowances.

**Other Activities** – higher intra-Group sales by service companies.

**STRUCTURE OF ASSETS, EQUITY AND LIABILITIES**
In 2018, the Group’s assets rose to PLN 14,160,469 thousand, by PLN 2,422,425 thousand relative to the end of 2017. As at December 31st 2018, non-current assets were PLN 9,886,441 thousand, and current assets were PLN 4,274,028 thousand.

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

- PLN 885,891 thousand (13.1%) increase in property, plant and equipment attributable to the implementation of a material investment programme, as well as consolidation of Goat TopCo (Compo Expert) assets;
- PLN 367,309 thousand (92.8%) increase in intangible assets, mainly due to the consolidation of Goat TopCo (Compo Expert) assets;
- PLN 500,683 thousand (49.9%) increase in inventories, mainly due to the consolidation of Goat TopCo (Compo Expert) as at December 31st 2018 and year-on-year increases in prices of materials and products;
- PLN 465,485 thousand (42.8%) increase in trade and other receivables, mainly due to the consolidation of Goat TopCo (Compo Expert).

Year on year, the most significant changes in equity and liabilities in the reporting period included:

- PLN 115,181 thousand (1.5%) decrease in equity, mainly due to dividends paid in the total amount of PLN 144,345 thousand;
- PLN 1,215,885 thousand (74.4%) increase in long- and short-term borrowings attributable to capital expenditure, acquisition of Goat TopCo (Compo Expert), and refinancing of that company’s bank borrowings;
- PLN 829,090 thousand (46.9%) increase in trade and other payables, mainly due to the consolidation of Goat TopCo (Compo Expert), as well as to year-on-year increases in prices of raw materials, electricity and CO₂ emission allowances.

As at December 31st 2018, the Group’s consolidated financial statements disclose preliminary accounting for the acquisition of assets, liabilities and contingent liabilities taken over as part of the acquisition of Goat TopCo (Compo Expert), based on the carrying amounts disclosed in the consolidated financial statements of the Goat TopCo (Compo Expert) Group as at November 30th 2018, which were adopted as the best available approximation of their respective fair values as at the acquisition date. The amounts of the acquired assets, liabilities and contingent liabilities are currently being measured by an independent expert. Based on the valuation, the acquisition of Goat TopCo (Compo Expert) will be accounted for within one year as of the acquisition date.

**KEY FINANCIAL RATIOS**

**Profitability ratios [%]**

<table>
<thead>
<tr>
<th></th>
<th>2018</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gross profit margin</td>
<td>15.9</td>
<td>22.5</td>
</tr>
<tr>
<td>EBIT margin</td>
<td>0.8</td>
<td>6.2</td>
</tr>
<tr>
<td>EBITDA margin</td>
<td>7.6</td>
<td>12.3</td>
</tr>
<tr>
<td>Net profit margin</td>
<td>0.1</td>
<td>5.1</td>
</tr>
<tr>
<td>ROA</td>
<td>0.1</td>
<td>4.2</td>
</tr>
<tr>
<td>ROCE</td>
<td>0.7</td>
<td>6.1</td>
</tr>
<tr>
<td>ROE</td>
<td>0.1</td>
<td>6.6</td>
</tr>
</tbody>
</table>
Return on non-current assets | 0.1 | 6.1

**Liquidity ratios**

<table>
<thead>
<tr>
<th></th>
<th>2018</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Current ratio</td>
<td>1.3</td>
<td>1.9</td>
</tr>
<tr>
<td>Quick ratio</td>
<td>0.8</td>
<td>1.4</td>
</tr>
<tr>
<td>Cash ratio</td>
<td>0.3</td>
<td>0.7</td>
</tr>
</tbody>
</table>

**Operational efficiency ratios**

<table>
<thead>
<tr>
<th></th>
<th>2018</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Inventory turnover</td>
<td>64</td>
<td>48</td>
</tr>
<tr>
<td>Average collection period</td>
<td>56</td>
<td>41</td>
</tr>
<tr>
<td>Average payment period</td>
<td>112</td>
<td>86</td>
</tr>
<tr>
<td>Cash conversion cycle</td>
<td>9</td>
<td>4</td>
</tr>
</tbody>
</table>

**Debt ratios [%]**

<table>
<thead>
<tr>
<th></th>
<th>2018</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total debt ratio</td>
<td>48.2</td>
<td>36.6</td>
</tr>
<tr>
<td>Long-term debt ratio</td>
<td>25.1</td>
<td>19.9</td>
</tr>
<tr>
<td>Short-term debt ratio</td>
<td>23.1</td>
<td>16.7</td>
</tr>
<tr>
<td>Equity-to-debt ratio</td>
<td>107.3</td>
<td>173.3</td>
</tr>
<tr>
<td>Interest cover ratio</td>
<td>182.0</td>
<td>1549.6</td>
</tr>
</tbody>
</table>

The above ratios indicate a significant decline in the Group’s profitability as a result of lower financial performance, including losses reported by some of the subsidiaries. Liquidity ratios declined materially, while debt ratios went up. The changes are mainly attributable to a significant increase in the Group’s debt as at December 31st 2018 following the acquisition of shares in Goat TopCo (Compo Expert) of Germany in November 2018. However, the ratios are at acceptable levels and do not indicate any liquidity risk.

**ASSESSMENT WITH A STATEMENT OF REASONS**

The Supervisory Board assessed the Group’s consolidated financial statements for the 12 months ended December 31st 2018 and determined that they contained the information required by applicable laws and were consistent with facts.

The consolidated financial statements were reviewed, analysed and assessed by the Audit Committee of the Company’s Supervisory Board. The Audit Committee, in the performance of the obligations imposed by the Act supervised the financial reporting processes, effectiveness of the internal control and risk management systems as well as internal audit processes, with particular focus on ensuring the reliability of the financial statements and their compliance with relevant legal requirements.

In the course of the audit of the financial statements, the Audit Committee held regular meetings with representatives of the audit firm responsible for the audit of Grupa Azoty S.A.’s financial statements and with representatives of the Company’s financial staff, monitoring the
process of preparation and audit of the financial statements and discussing the key matters. In addition, the Audit Committee read the audit firm’s audit report on the consolidated financial statements and the additional report prepared for the Audit Committee and the Company’s management in accordance with the Regulation and the requirements stipulated in the Act. Having analysed the above documents, the Audit Committee recommended that the Company’s Supervisory Board issue a positive opinion on the Group’s consolidated financial statements for 2018.

The Supervisory Board’s assessment of the Group’s consolidated financial statements is based on a positive recommendation from the Audit Committee and the auditor’s report.

Based on the procedures described as well as the additional explanations received from the Company’s Management Board and the Company’s auditor, the Supervisory Board issued a positive opinion on the Group’s consolidated financial statements for the 12 months ended December 31st 2018, submitted by the Management Board.

4. SUMMARY OF THE ANALYSIS AND ASSESSMENT OF THE DIRECTORS’ REPORT ON THE OPERATIONS OF GRUPA AZOTY S.A. AND THE GRUPA AZOTY GROUP

GENERAL

The Directors’ Report on the operations of Grupa Azoty S.A. and the Grupa Azoty Group in the financial year 2018 was prepared by the Management Board and comprises:

1. General information on the Group and the Company
2. Management policy
3. Business overview
4. Strategy and growth policy
5. Current financial position and assets
6. Risk, threats and growth prospects
7. Shares and shareholding structure
8. Statement of compliance with corporate governance standards, including a report on entertainment expenses, legal costs, marketing costs, public relations and social communication expenses, and management consultancy fees
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 Grupa Azoty Group and its Parent

The section presents information on 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:

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

3) Business overview

The section presents:

- Grupa Azoty Group’s operating segments (Agro Fertilizers, Plastics, Chemicals, Energy, and Other Activities);
- Characteristics of the main products in particular segments;
- Sales markets and supply sources of production materials, goods and services;
- Significant and material agreements, including borrowing, guarantee and surety agreements;
- Material events in the reporting period (including execution of an agreement with a supplier of a licence for polypropylene production technology and of polypropylene production catalysts for the Polimery Police project, execution of an agreement on cooperation in fertilizer trading, opening a Logistics Centre in Guben, removal of phthalic plasticizers from the offering, opening the Research and Development Centre in Tarnów, strengthening the offering of innovative services for agriculture),
- Material events after the reporting date: approval of the pre-selected bidder in the tender for the Polimery Police project.

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 and assets

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 Zaklady Azotowe Chorzów S.A. and loss of control over African Investment Group S.A.;
- Volatility of currency exchange rates;
- Prices of CO₂ emission allowances;
- Market environment of individual production segments;
• Key financial and economic data – consolidated and separate;
• Management of financial resources and assets;
• Deposits held in the Group companies’ bank accounts;
• Material off-balance-sheet items;
• Risk management policy 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);
• information on expected situation.

6) Risk, threats and growth prospects
The section presents material risks and describes external and internal factors important for the Group’s growth.

7) Shares and shareholding structure
The Section presents, inter alia:
• Total number and par value of Company shares, holdings of the shares by supervisory and management personnel, and interests of such persons in the Company’s related entities;
• Key information on Company shares, including the shareholding structure, dividend policy and summary of dividends paid in 2008–2018, the price of Company shares on the stock market and broker recommendations in the financial year 2018, 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 Company, 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;
• Company’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 Company’s shareholding structure;
• Special control powers of securities holders and restrictions on the exercise of voting rights;
• Rules governing appointment and removal of the Company management staff; powers of the management staff, including in particular the authority to resolve to issue or buy back shares;
• Rules governing amendments to the Company’s Articles of Association;
• Powers and operation of the Company’s General Meeting;
• Composition, changes in composition, and operation of the Company’s management and supervisory bodies, including members’ CVs;

• Grupa Azoty Group’s diversity policy;

• Company’s remuneration policy together with information on the amount of remuneration paid to the Supervisory and Management Board members;

• Group’s sponsorship, charitable or similar activities.

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 2018 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 sets forth the Management Board’s information, based on the Supervisory Board’s statement, on the selection of Ernst & Young Audyt Polska Sp. z o.o. Sp.k. of Warsaw as the auditor of the financial statements, and on the auditor’s remuneration. The section also includes information on environmental matters, including such aspects as the sustainable development policy, the Respect Index, legal requirements, safety standards, SPOT, environmental investments, water, wastewater and waste management, environment-friendly solutions for pollutant emissions, joint implementation project, noise.

10) Non-financial statement

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

11) Supplementary information

The section includes supplementary information and information on events after the reporting date, resolution of Grupa Azoty PUŁAWY’s Management Board on preliminary acceptance of a bid in the tender procedure for the selection of an EPC contractor for the project to construct a coal-fired power generation unit in Pulawy.

ASSESSMENT WITH A STATEMENT OF REASONS

The Supervisory Board assessed the Directors’ Report on Grupa Azoty S.A.’s and Grupa Azoty Group’s operations in the 12 months ended December 31st 2018 and determined that it contained the information required by applicable laws and was consistent with facts.

The Supervisory Board concludes that the Directors’ Report on the operations of Grupa Azoty S.A. and the Grupa Azoty Group in 2018 contains important information on their assets and financial condition, including an assessment of achieved effects and risks and a description of threats, and the information presented in the Directors’ Report is consistent with the data sourced from the audited financial statements of Grupa Azoty S.A. and the Grupa Azoty Group for 2018 and with the accounting records and documents. The Directors’ Report meets the requirements stipulated in Art. 49.2 of the Accounting Act.
Based on the procedures described as well as additional explanations received from the Company's Management Board, the Supervisory Board issued a positive opinion on the Directors' Report on the operations of Grupa Azoty S.A. and the Grupa Azoty Group for the 12 months ended December 31st 2018, submitted by the Management Board.

5. SUMMARY OF THE ANALYSIS AND ASSESSMENT OF THE REPORT ON PAYMENTS TO GOVERNMENTS

GENERAL

The consolidated report on payments to governments, prepared in accordance with the provisions of Section 6a of the Accounting Act, presenting payments to governments made by the Grupa Azoty Group with regard to the upstream sector, was subject to assessment.

To satisfy the requirements of Art. 63e–Art. 63j of the Accounting Act, the Grupa Azoty Group prepares a consolidated report on payments to governments, including information on:

- Total amount of payments made to governments in a given country, broken down into payments made at appropriate government levels,
- Total amount of payments made to governments in a given country, at appropriate government levels, broken down into payment categories set out in Art. 63e.6 of the Accounting Act,
- Where payments have been assigned by the entity to a specific project – total amount of payments for each project, broken down into payment categories set out in Art. 63e.6 of the Accounting Act.

The report presents:

1) Information on Grupa Azoty Group’s subsidiaries engaged in minerals extraction: Grupa Azoty Kopalnie i Zakłady Chemiczne Siarki Siarkopol S.A. and African Investment Group S.A. of Senegal;

2) Total amount of payments made to governments in a given country, broken down into payments made at appropriate government levels (the total amount of payments was PLN 10,594 thousand);

3) Total amount of payments, broken down into the payment categories specified in Art. 63e.6 of the Accounting Act, made at appropriate government levels in a given country (taxes levied on income, production or profits, excluding taxes levied on consumption, such as value added taxes, personal income taxes or sales taxes); royalties; dividends; licence fees, rental fees, entry fees, and other considerations for licences or concessions);

4) Total amount of payments made in respect of each project, broken down into payment categories set out in Art. 63e.6 of the Accounting Act (where payments have been assigned to specific projects);

5) Description of significant rules followed in preparing the report and in presenting the data contained therein.

ASSESSMENT WITH A STATEMENT OF REASONS

Following an analysis of the report submitted by the Management Board, the Supervisory Board concluded that the report was prepared with due diligence and showed the data required by the Accounting Act. Consequently, the Supervisory Board issued a positive opinion on the report.
6. SUMMARY OF THE ANALYSIS AND ASSESSMENT OF THE NON-FINANCIAL STATEMENT OF THE GRUPA AZOTY GROUP

GENERAL
The non-financial statement of the Grupa Azoty Group for 2018 submitted by the Management Board describes:
- management area
- environmental area
- human resources
- social and sponsorship policy
- ethics management (counteracting corruption and bribery, respect for human rights)
- product quality, production, storage and transport safety, and safety related to the impact of chemical substances and mixtures on humans.

MANAGEMENT AREA
The description of the management area includes information on the Grupa Azoty Group’s position, its segments and markets on which its products are placed, as well as an overview of the Group’s structure. The section also contains a description of the business strategy and key financials, as well as activities undertaken in the pursuit of the sustainable development strategy.

The section presents the identified risk areas and the adopted risk prevention measures.

ENVIRONMENTAL AREA
The section describes the Group’s approach to environmental protection issues. The environmental impact of raw materials and other materials and energy used was presented. The section also discussed substances emitted into the air, waste management procedures and methods used to reduce energy consumption.

The report also presents the amounts of penalties imposed on the Group and measures taken to reduce the environmental impact of its products and services.

HUMAN RESOURCES
The section describes the human resources matters, i.e. employment numbers at the Company and the other Group companies, remuneration and additional benefits. Procedures for maintaining the highest standards of occupational safety, training programmes and relations with employees are also presented.

SOCIAL AND SPONSORSHIP POLICY
The section contains a description of social and sponsorship initiatives undertaken in cooperation with the social environment and local communities, as well as countrywide and international initiatives. It also describes the rules of cooperation applicable at individual Group companies.
ETHICS MANAGEMENT (COUNTERACTING CORRUPTION AND BRIBERY, RESPECT FOR HUMAN RIGHTS)

The section contains information about the ‘Grupa Azoty S.A. Code of Ethical Conduct’, a document describing measures taken by the Group to foster responsible employee behaviour and build relations with Group companies’ environment.

PRODUCT QUALITY, PRODUCTION, STORAGE AND TRANSPORT SAFETY, AND SAFETY RELATED TO THE IMPACT OF CHEMICAL SUBSTANCES AND MIXTURES ON HUMANS

The section includes an overview of the principles underlying responsibility for all activities related to the manufacture of products along the entire supply chain. The products and materials produced by the Group companies are sold, inter alia, to food producers and farmers. In order to effectively implement its stated goals in the area, the Company has implemented the Grupa Azoty Food Safety Management Policy.

ASSESSMENT WITH A STATEMENT OF REASONS

Following an analysis of the statement submitted by the Management Board, the Supervisory Board issued a positive opinion on the Non-Financial Statement of the Grupa Azoty Group for 2018.

7. CONCLUSIONS AND RECOMMENDATIONS

The assessment of the Company’s financial statements by the Supervisory Board is based on a positive recommendation from the Audit Committee, the auditor’s reports on the Company’s separate financial statements and the Grupa Azoty Group’s consolidated financial statements for the financial year ended December 31st 2018, according to which:

1. The financial statements give a true and fair view of the Company’s and the Group’s assets and financial position as at December 31st 2018, as well as their respective separate and consolidated financial performance, separate and consolidated cash flows for the financial year ended December 31st 2018, in accordance with applicable International Financial Reporting Standards as endorsed by the European Union and the adopted accounting policies.

2. The Company’s financial statements for the year ended December 31st 2018 were prepared on the basis of properly maintained accounting records.

3. The Company’s separate financial statements and the Group’s consolidated financial statements comply with the form and content requirements laid down in the laws and regulations applicable to, respectively, the Company and the Group, as well as with the Company’s Articles of Association.

The Supervisory Board also issued a positive opinion on the consolidated report on payments to governments for 2018 and the non-financial statement for 2018.

Therefore, the Supervisory Board recommends that the General Meeting approve the following statements and reports for 2018:

1. the separate financial statements of Grupa Azoty S.A. for the 12 months ended December 31st 2018;

2. the consolidated financial statements of the Grupa Azoty Group for the 12 months ended December 31st 2018;
3. the Directors’ Report on Grupa Azoty S.A.’s and the Grupa Azoty Group’s operations in the 12 months ended December 31st 2018;

4. the consolidated report on payments to governments for 2018;


8. **ASSESSMENT OF MANAGEMENT BOARD’S PROPOSAL ON ALLOCATION OF NET PROFIT FOR 2018**

The Supervisory Board reviewed the Management Board’s proposal to the General Meeting, adopted by Management Board’s Resolution No. 205/XI/2019 of May 9th 2019, that the Company’s net profit for the financial year 2018, amounting to PLN 171,064,449.85 (one hundred and seventy-one million, sixty-four thousand, four hundred and forty-nine zloty, 85/100), be allocated in full to the Company’s statutory reserve funds.

The Supervisory Board issues a positive assessment of the Management Board’s proposal to allocate the entire net profit for the financial year 2018 to the Company’s statutory reserve funds. The Supervisory Board agrees with the arguments contained in the grounds for the proposal.

Michał Gabryel – Deputy Chairman of the Supervisory Board
Zbigniew Paprocki – Secretary of the Supervisory Board
Paweł Bielski – Member of the Supervisory Board
Piotr Czajkowski – Member of the Supervisory Board
Monika Fill – Member of the Supervisory Board
Robert Kapka – Member of the Supervisory Board
Bartłomiej Litwińczuk – Member of the Supervisory Board
Marcin Pawlicki – Member of the Supervisory Board
Roman Romaniszyn – Member of the Supervisory Board.