



Grupa Azoty S.A.

**Opinion and Report
of the Independent Auditor
Financial Year ended
31 December 2015**

The opinion contains 3 pages
The supplementary report contains 9 pages
Opinion of the independent auditor
and supplementary report on the audit
of the separate financial statements
for the financial year ended
31 December 2015



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OPINION OF THE INDEPENDENT AUDITOR

To the General Meeting of Grupa Azoty S.A.

Opinion on the Separate Financial Statements

We have audited the accompanying separate financial statements of Grupa Azoty S.A., with its registered office in Tarnów, ul. Kwiatkowskiego 8 (“the Company”), which comprise the separate statement of financial position as at 31 December 2015, the separate statement of profit or loss and other comprehensive income, the separate statement of changes in equity and the separate statement of cash flows for the year then ended and notes comprising a summary of significant accounting policies and other explanatory information.

Management’s and Supervisory Board’s Responsibility for the Financial Statements

Management of the Company is responsible for the accuracy of the accounting records and the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards, as adopted by the European Union and with other applicable regulations and preparation of the report on the Company’s activities. Management of the Company is also responsible for such internal control as management determines is necessary to enable the preparation of the financial statements that are free from material misstatement, whether due to fraud or error.

According to the Accounting Act dated 29 September 1994 (Official Journal from 2013, item 330 with amendments) (“the Accounting Act”), Management of the Company and members of the Supervisory Board are required to ensure that the financial statements and the report on the Company’s activities are in compliance with the requirements set forth in the Accounting Act.

Auditor’s Responsibility

Our responsibility is to express an opinion on these financial statements and whether the financial statements are derived from properly maintained accounting records based on our audit. We conducted our audit in accordance with section 7 of the Accounting Act and International Standards on Auditing as adopted by the National Council of Certified Auditors as the National Standards on Assurance. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements and the accounting records from which they are derived are free of material misstatements.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the

assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management of the Company, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Opinion

In our opinion, the accompanying separate financial statements of Grupa Azoty S.A. have been prepared and present fairly, in all material respects, the unconsolidated financial position of the Company as at 31 December 2015 and its unconsolidated financial performance and its unconsolidated cash flows for the year then ended, in accordance with International Financial Reporting Standards as adopted by the European Union, are in compliance with the respective regulations and the provisions of the Company's articles of association that apply to the Company's separate financial statements and have been prepared from accounting records, that, in all material respects, have been properly maintained.

Specific Comments on Other Legal and Regulatory Requirements

Report on the Company's Activities

As required under the Accounting Act, we report that the accompanying report on the Company's activities includes, in all material respects, the information required by Art. 49 of the Accounting Act and by the Decree of the Ministry of Finance dated 19 February 2009 on current and periodic information provided by issuers of securities and the conditions for recognition as equivalent information required by the law of a non-Member State (Official Journal from 2014, item 133) and the information is consistent with the financial statements.

Requirement of the energy law

The regulatory financial information presented in note 32 of the accompanying separate financial statements comprising the statement of financial position as at 31 December 2015 and statement of profit or loss for the 12 month reporting period then ended, separately for each activity i.e. distribution of electricity, trading in gaseous fuels and other activities of the Company and other explanatory information comprising a summary of significant accounting policies and the supplementary information and explanations, including allocation principles for assets and liabilities, revenues and costs to each activity (jointly referred to as "regulatory financial information") has been prepared by management in accordance with basis for preparation described in Note 32 of the accompanying separate financial statements to fulfill the requirements of article 44 of the Energy

Act dated 10 April 1997 (Official Journal from 2012, item 1059 with amendments) (the “Act”), including within the scope of avoiding discrimination of customers and cross- subsidisation between activities.

The content of the regulatory financial information is determined by regulations of the Act. Our audit did not include an assessment of the adequacy of the information required by law for preparation of the regulatory financial information, particularly within the scope of avoiding discrimination of customers and cross-subsidisation between activities.

In our opinion, the regulatory financial information as at 31 December 2015 and for the 12 month reporting period then ended has been prepared, in all material respects, in accordance with the basis for preparation described in Note 32 of the accompanying separate financial statements and article 44 point 2 of the Act.

On behalf of KPMG Audyt Sp. z o.o.
Registration No. 458
ul. Inflancka 4A
00-189 Warsaw

Signed on the Polish original

.....
Marcin Domagała
Member of the Management Board
Key Certified Auditor
Registration No. 90046

Signed on the Polish original

.....
Jakub Panek
Certified Auditor
Registration No. 11327

8 March 2016

Grupa Azoty S.A.

Supplementary report
on the audit of the separate
financial statements
Financial Year ended
31 December 2015

The supplementary report contains 9 pages
The supplementary report on the audit
of the separate financial statements
for the financial year ended
31 December 2015

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1. General

1.1. General information about the Company

1.1.1. Company name

Grupa Azoty S.A.

1.1.2. Registered office

ul. Kwiatkowskiego 8
33-101 Tarnów

1.1.3. Registration in the register of entrepreneurs of the National Court Register

Registration court:	District Court for Cracow-Śródmieście in Cracow, XII Commercial Department of the National Court Register
Date:	28 December 2001
Registration number:	KRS 0000075450
Share capital as at the end of reporting period:	PLN 495,977,420

1.1.4. Management of the Company

The Management Board is responsible for management of the Company.

As at 31 December 2015, the Management Board of the Company was comprised of the following members:

- Paweł Jarczewski – President of the Management Board,
- Witold Szczypiński – Vice-President of the Management Board,
- Andrzej Skolmowski – Vice-President of the Management Board,
- Marek Kapłucha – Vice-President of the Management Board,
- Marian Rybak – Vice-President of the Management Board,
- Krzysztof Jałosiński – Vice-President of the Management Board,
- Artur Kopec – Member of the Management Board.

Based on the resolution of the Supervisory Board dated 19 February 2016, the following persons were dismissed from the Management Board:

- Paweł Jarczewski – President of the Management Board,
- Marek Kapłucha – Vice-President of the Management Board,
- Marian Rybak – Vice-President of the Management Board,
- Krzysztof Jałosiński – Vice-President of the Management Board.

On the same day, based on the resolution of the Supervisory Board, Mariusz Bober was appointed for the position of the President of the Management Board.

1.2. Key Certified Auditor and Audit Firm Information

1.2.1. Key Certified Auditor information

Name and surname: Marcin Domagała
Registration number: 90046

1.2.2. Audit Firm information

Name: KPMG Audyt Sp. z o.o.
Address of registered office: ul. Inflancka 4A, 00-189 Warsaw
Registration number: KRS 0000104753
Registration court: District Court for the Capital City of Warsaw in Warsaw,
XII Commercial Department of the National Court Register
Share capital: PLN 125,000
NIP number: 526-10-24-841

KPMG Audyt Sp. z o.o. is entered into the register of audit firms, maintained by the National Council of Certified Auditors, under number 458.

1.3. Prior period financial statements

The separate financial statements for the financial year ended 31 December 2014 were audited by KPMG Audyt Sp. z o.o. and received an unmodified opinion.

The separate financial statements were approved at the General Meeting on 18 June 2015 where it was resolved to allocate the net profit for the prior financial year of PLN 214,633,409.39 to the reserve capital.

The separate financial statements were submitted to the Registry Court on 2 July 2015.

1.4. Audit scope and responsibilities

This report was prepared for the General Meeting of Grupa Azoty S.A. with its registered office in Tarnów, ul. Kwiatkowskiego 8 and relates to the separate financial statements comprising: the separate statement of financial position as at 31 December 2015, the separate statement of profit or loss and other comprehensive income, the separate statement of changes in equity and the separate statement of cash flows for the year then ended and notes comprising a summary of significant accounting policies and other explanatory information.

The audited Company prepares its separate financial statements in accordance with International Financial Reporting Standards as adopted by the European Union on the basis of the decision of the General Meeting dated 25 February 2008.

The separate financial statements were audited in accordance with the contract dated 10 July 2012, concluded on the basis of the resolution of the Supervisory Board dated 21 May 2012 on the appointment of the auditor and the annex to the contract dated 23 December 2014, concluded on the basis of the resolution of the Supervisory Board dated 6 November 2014.



We conducted our audit in accordance with section 7 of the Accounting Act dated 29 September 1994 (Official Journal from 2013, item 330 with amendments) (“the Accounting Act”) and International Standards on Auditing as adopted by the National Council of Certified Auditors as the National Standards on Assurance.

We audited the separate financial statements at the Company during the period from 23 to 27 November 2015 and from 25 January to 5 February 2016.

Management of the Company is responsible for the accuracy of the accounting records and the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards as adopted by the European Union and with other applicable regulations and preparation of the report on the Company’s activities.

Our responsibility is to express an opinion and to prepare a supplementary report on the audit of the separate financial statements and whether the financial statements are derived from properly maintained accounting records based on our audit.

Management of the Company submitted a statement dated as at the same date as this report as to the true and fair presentation of the accompanying separate financial statements, which confirmed that there were no undisclosed matters which could significantly influence the information presented in the separate financial statements.

All required statements, explanations and information were provided to us by Management of the Company and all our requests for additional documents and information necessary for expressing our opinion and preparing the report have been fulfilled.

The scope of the work planned and performed has not been limited in any way. The method and scope of our audit is detailed in working papers prepared by us and retained in the offices of the Audit Firm.

The Key Certified Auditor and the Audit Firm fulfill the independence requirements as described in Art. 56 points 3 and 4 of the Act on Certified Auditors and their Self-Governance, Audit Firms authorized to Audit Financial Statements and Public Oversight dated 7 May 2009 (Official Journal from 2015, item 1011 with amendments).

The scope of the work as well as the responsibilities of the auditor and Management of the Company with respect to the regulatory financial information presented in note 32 of the accompanying separate financial statements have been presented in the auditor’s opinion.

2. Financial analysis of the Company

2.1. Summary analysis of the separate financial statements

2.1.1. Separate statement of financial position

ASSETS	31.12.2015	% of total	31.12.2014	% of total	1.01.2014	% of total
	PLN '000		PLN '000		PLN '000	
			<i>restated</i>		<i>restated</i>	
Non-current assets						
Property, plant and equipment	1 114 240	19.0	981 306	18.2	996 454	18.5
Investment property	12 863	0.2	13 407	0.3	15 154	0.3
Intangible assets	50 442	0.9	43 214	0.8	40 370	0.8
Investments in subordinated entities	3 832 536	65.5	3 814 993	70.6	3 814 983	71.0
Available-for-sale financial assets	12 134	0.2	12 134	0.2	12 134	0.2
Other financial assets	218 115	3.7	-	-	-	-
Other non-current assets	-	-	210	0.0	690	0.0
Total non-current assets	5 240 330	89.5	4 865 264	90.1	4 879 785	90.8
Current assets						
Inventories	220 437	3.8	237 672	4.4	235 390	4.4
Other financial assets	30 172	0.5	829	0.0	5 649	0.1
Current tax assets	-	-	2 133	0.0	10 268	0.2
Trade and other receivables	246 894	4.2	258 824	4.8	232 629	4.3
Cash and cash equivalents	111 942	1.9	27 431	0.5	6 349	0.1
Other current assets	5 832	0.1	8 302	0.2	5 611	0.1
Assets held for sale	340	0.0	107	0.0	125	0.0
Total current assets	615 617	10.5	535 298	9.9	496 021	9.2
TOTAL ASSETS	5 855 947	100.0	5 400 562	100.0	5 375 806	100.0
EQUITY AND LIABILITIES						
	31.12.2015	% of total	31.12.2014	% of total	1.01.2014	% of total
	PLN '000		PLN '000		PLN '000	
Equity						
Share capital	495 977	8.4	495 977	9.2	495 977	9.2
Share premium	2 418 270	41.3	2 418 270	44.8	2 418 270	45.0
Hedging reserve	65	0.0	-	-	-	-
Retained earnings	1 468 459	25.1	1 260 094	23.3	1 069 634	19.9
Total equity	4 382 771	74.8	4 174 341	77.3	3 983 881	74.1
Liabilities						
Loans	935 550	15.9	347 263	6.4	513 827	9.6
Employee benefits	50 679	0.9	49 741	0.9	41 873	0.8
Provisions	24 446	0.4	24 374	0.5	22 781	0.4
Government grants	3 163	0.1	3 313	0.1	3 463	0.1
Deferred tax liabilities	29 770	0.5	22 363	0.4	33 381	0.6
Other financial liabilities	244	0.0	1 114	0.0	1 842	0.0
Total non-current liabilities	1 043 852	17.8	448 168	8.3	617 167	11.5
Loans	48 962	0.8	442 976	8.2	402 883	7.5
Employee benefits	2 694	0.1	2 683	0.1	2 369	0.0
Trade and other payables	286 630	4.9	225 052	4.1	257 177	4.8
Provisions	42 165	0.7	36 203	0.7	40 145	0.7
Government grants	2 314	0.1	791	0.0	533	0.0
Deferred income	5	0.0	20	0.0	3 669	0.1
Other financial liabilities	46 554	0.8	70 328	1.3	67 982	1.3
Total current liabilities	429 324	7.4	778 053	14.4	774 758	14.4
Total liabilities	1 473 176	25.2	1 226 221	22.7	1 391 925	25.9
TOTAL EQUITY AND LIABILITIES	5 855 947	100.0	5 400 562	100.0	5 375 806	100.0

2.1.2. Separate statement of profit or loss and other comprehensive income

	1.01.2015 - 31.12.2015	% of total sales	1.01.2014 - 31.12.2014	% of total sales
	PLN '000		PLN '000	
Revenue	1 776 651	100,0	1 847 250	100,0
Cost of sales	(1 487 619)	(83,7)	(1 625 949)	(88,0)
Gross profit	289 032	16,3	221 301	12,0
Selling and distribution expenses	(93 886)	(5,3)	(82 348)	(4,5)
Administrative expenses	(160 144)	(9,0)	(154 189)	(8,4)
Other income	3 994	0,2	5 164	0,3
Other expenses	(34 798)	(2,0)	(19 171)	(1,0)
Results from operating activities	4 198	0,2	(29 243)	(1,6)
Finance income	237 782	13,4	270 738	14,6
Finance costs	(33 044)	(1,8)	(37 554)	(2,0)
Net finance income	204 738	11,6	233 184	12,6
Profit before tax	208 936	11,8	203 941	11,0
Tax expense	119	0,0	10 692	0,6
Profit for the year	209 055	11,8	214 633	11,6
OTHER COMPREHENSIVE INCOME				
Items that will never be reclassified to profit or loss				
Remeasurments of defined benefit liability	(852)	(0,1)	(5 350)	(0,2)
Tax on items that will never be reclassified to profit or loss	162	0,0	1 016	0,0
	(690)	(0,1)	(4 334)	(0,2)
Items that are, or may be reclassified to profit or loss				
Valuation of hedging instruments	65	0,0	-	-
	65	0,0	-	-
Other comprehensive income for the year	(625)	(0,1)	(4 334)	(0,2)
Profit or loss and other comprehensive income for the year	208 430	11,7	210 299	11,4
Earnings per share				
Basic earnings per share (PLN)	2,11		2,16	
Diluted earnings per share (PLN)	2,11		2,16	

2.2. Selected financial ratios

	2015	2014 <i>restated</i>	2013 <i>restated</i>
1. Return on sales			
<u>profit for the period x 100%</u> revenue	11.8%	11.6%	2.4%
2. Return on equity			
<u>profit for the period x 100%</u> equity - profit for the period	5.0%	5.4%	1.1%
3. Debtors' days			
<u>average trade receivables (gross) x 365 days</u> revenue	34 days	34 days	31 days
4. Debt ratio			
<u>liabilities x 100%</u> equity and liabilities	25.2%	22.7%	25.9%
5. Current ratio			
<u>current assets</u> current liabilities	1.4	0.7	0.6

- Revenue includes revenue from sales of finished products, merchandise and raw materials.
- Average trade receivables represent the average of trade receivables at the beginning and at the end of the period, with no deduction made for allowances.

3. Detailed report

3.1. Accounting system

The Company maintains current documentation describing the applied accounting principles adopted by the Management Board to the extent required by Art. 10 of the Accounting Act.

During the audit of the separate financial statements, we tested, on a sample basis, the operation of the accounting system.

On the basis of the work performed, we have not identified any material irregularities in the accounting system which have not been corrected and that could have a material effect on the separate financial statements. Our audit was not conducted for the purpose of expressing a comprehensive opinion on the operation of the accounting system.

The Company performed a physical verification of its assets in accordance with the requirements and time frame specified in Art. 26 of the Accounting Act, and reconciled and recorded the result thereof in the accounting records.

3.2. Notes to the separate financial statements

All information included in the notes to the separate financial statements, comprising a summary of significant accounting policies and other explanatory notes, is, in all material respects, presented accurately and completely. This information should be read in conjunction with the separate financial statements.

3.3. Report on the Company's activities

The report on the Company's activities includes, in all material respects, information required by Art. 49 of the Accounting Act and by the Decree of the Ministry of Finance dated 19 February 2009 on current and periodic information provided by issuers of securities and the conditions for recognition as equivalent information required by the law of a non-Member State (Official Journal from 2014, item 133) and the information is consistent with the separate financial statements.

On behalf of KPMG Audyt Sp. z o.o.
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Signed on the Polish original

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