AUDITOR'S REPORT
ON THE FULL-YEAR CONSOLIDATED FINANCIAL STATEMENTS

For the General Meeting and the Supervisory Board of Grupa Azoty S.A.

Auditor's report on the full-year consolidated financial statements

We have audited the accompanying full-year consolidated financial statements of the Grupa Azoty Group (the 'Group'), whose parent is Grupa Azoty S.A. (the 'Company') with its registered office at ul. Kwiatkowskiego 8, Tarnów, Poland, for the year ended December 31st 2017, comprising the consolidated statement of profit or loss and other comprehensive income for the financial year from January 1st 2017 to December 31st 2017, the consolidated statement of financial position as at December 31st 2017, the consolidated statement of changes in equity, the consolidated statement of cash flows for the financial year from January 1st 2017 to December 31st 2017, and related notes (the 'accompanying consolidated financial statements').

Responsibility of the Management Board and Supervisory Board members for the consolidated financial statements

The Company's Management Board is responsible for the preparation and fair presentation of the consolidated financial statements in compliance with the International Accounting Standards, International Financial Reporting Standards and the related interpretations issued in the form of the European Commission's regulations, as well as other applicable laws and regulations and the Company's Articles of Association. The Management Board is also responsible for such internal control as it determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In accordance with the Accounting Act of September 29th 1994 (the 'Accounting Act'), the Management Board of the Company and members of its Supervisory Board are required to ensure that the consolidated financial statements comply with the requirements thereof.

Auditor's responsibility

Our responsibility was to express an opinion on whether the accompanying consolidated financial statements give a true and fair view of the Group's assets and financial position as well its financial performance in compliance with the International Accounting Standards, International Financial Reporting Standards, the related interpretations issued in the form of the European Commission's regulations, and the applied accounting policies.

We conducted the audit of the accompanying consolidated financial statements in accordance with:

- [0] The Act on Statutory Auditors, Audit Firms, and Public Oversight of May 11th 2017 (the 'Act on Statutory Auditors');
- [0] The Polish Financial Auditing Standards compliant with the International Standards on Auditing, adopted by the National Council of Statutory Auditors by Resolution No. 2783/52/2015 of February 10th 2015, as amended;
- [0] 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 ('Regulation 537/2014').

These standards and regulations require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the accompanying consolidated financial statements are free from material misstatement.

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the aforementioned standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control and may involve any legal or regulatory area, not just those directly affecting the consolidated financial statements.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Company's preparation and fair presentation of the consolidated 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 Company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by the Company's Management Board, as well as evaluating the overall presentation of the consolidated financial statements.

The scope of the audit does not include assurance on the future viability of the audited Group or on the efficiency or effectiveness with which the Company's Management Board has conducted or will conduct the affairs of the Group.

According to International Standard of Auditing 320.5, the concept of materiality is applied by the auditor both in planning and performing the audit, and in evaluating the effect of identified misstatements on the audit and of uncorrected misstatements, if any, on the consolidated financial statements and in forming the auditor's opinion. Accordingly, all statements contained in the auditor's report, including the statements on other legal and regulatory requirements, are made taking into account the qualitative and quantitative materiality levels determined in accordance with the auditing standards and the auditor's judgement.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion. The opinion is consistent with the additional report issued for the Audit Committee on the date of this audit report.

Independence

While conducting the audit, the lead auditor and the audit firm remained independent of the members of the Group in compliance with the Act on Statutory Auditors, Regulation 537/2014, and professional conduct rules as adopted by the National Council of Statutory Auditors.

To the best of our knowledge and belief, we hereby represent that we have not provided non-audit services, the provision of which is prohibited under Article 136 of the Act on Statutory Auditors and Article 5(1) of Regulation 537/2014.

Selection of audit firm

We have been selected to audit the accompanying consolidated financial statements of the Group pursuant to the Supervisory Board's resolution of March 28th 2017. The audit of the Group's consolidated financial statements for the financial year ended December 31st 2017 is our initial audit engagement conducted for the Group.

Most significant risks

In the course of the audit, we identified the most-significant risks of material misstatement (key audit matters), including fraud risks, which are described below, and developed appropriate audit procedures for such risks. Where we considered it relevant for understanding an identified risk and audit procedures performed by the auditor, we also included key observations on the particular risk.

These issues were taken into account in the context of our audit of the accompanying consolidated financial statements as a whole and when forming our opinion thereon. Accordingly, we have not expressed a separate opinion on these matters.

Risk of material misstatement (key audit matters)	*Audit procedures conducted in response to identified risk*
Initial audit of financial statements The audit of the Group's consolidated financial statements for the financial year ended December 31st 2017 is our initial audit engagement conducted for the Group. Given the scale and scope of the Company's operations and those of the other Grupa Azoty Group members, including members of lower-level groups, the key challenge was to understand the complex organisational structure of the Group and its impact on the processes run within the Group. While conducting the audit, we carried out a number of additional procedures to understand the nature of the Group's business, including the processes it involves and risks specific to it, as well as the controls implemented and policies applied by Group members, which have a bearing on the Group's financial reporting. These procedures allowed us to assess the audit risk, including the inherent risk and control risk, identify the risk of material misstatement and, as a consequence, determine materiality levels and the scope of audit procedures. As part of our initial audit engagement, the objective of our additional procedures was also to determine whether the opening balances contain misstatements that materially affect the current period's consolidated financial statements and whether the accounting policies reflected in the opening balances have been consistently applied in the current period's financial statements, or changes thereto are appropriately accounted for and adequately presented in accordance with the applicable financial reporting framework. For the Group's disclosures about adjustments made to the opening balance sheets, see Section 2.4 'Changes in presentation of financial statements and correction of errors' of the accompanying consolidated financial	Our audit procedures in relation to this key audit matter were as follows: • Holding an audit kick-off meeting with key personnel responsible for the Group's financial reporting and internal meetings with members of the audit unit, including teams responsible for the Group's key subsidiaries, as well as meetings with specialists to be involved in the audit procedures; • Reviewing the controls implemented at the Company and key members of the Group and testing selected controls applied to particular processes; • Understanding the Group's accounting policy and material items recognised in its financial statements based on professional judgment and estimates; • Communicating with the lead auditor acting on behalf of the predecessor audit firm, including discussing key audit matters and reviewing audit records from the prior reporting period; • Assessing the prior reporting period's key audit matters and their impact on the consolidated financial statements for the current financial year; • Reviewing adjustments made by the Group to the opening balance sheet and assessing whether relevant disclosures made in the consolidated financial statements are adequate. The results of our procedures as well as the audit strategy revised based on these results have been communicated to the Company's Management Board and Audit Committee.

statements.	
Recoverable amounts of deferred tax assets In the consolidated financial statements prepared as at December 31st 2017, the Group presents deferred tax assets of PLN 401m, including unused state aid in the form of a PLN 92m exemption from corporate income tax in respect of business activities conducted in a Special Economic Zone and unused tax losses of PLN 18m. As at each reporting date, the Group prepares projections of Group companies' taxable income and assesses recoverable amounts of deferred tax assets. This assessment is based on estimates and professional judgment of the Group's management. For the estimates and assumptions disclosed by the Group with respect to the recoverable amounts of deferred tax assets, see Note 7.4 'Deferred tax assets and liabilities' to the accompanying consolidated financial statements.	Our audit procedures in relation to this key audit matter included: • Assessment of accounting policies and procedures, including controls, applied to valuation and recognition of deferred tax assets; • Assessment of key targets set and estimates made by the Group companies with respect to projected sales volumes and profit margins, as well as temporary and permanent differences on the basis of which the balance sheet result is adjusted to taxable income; • Assessment of key targets set in the projections, including verifying target delivery against historical data and comparing short-term targets with budgets adopted by the management of the Group companies; • Submitting inquiries regarding the delivery of the set targets and the validity of key estimates to the finance personnel and management of the Group companies; • Assessment of the calculations of discounted qualifying expenses incurred by the reporting date, taking into account the levels of state aid received; • Determining whether the disclosures made in the consolidated financial statements with regard to the valuation of deferred tax assets are adequate.
Impairment of intangible assets and goodwill In the consolidated financial statements prepared as at December 31st 2017, the Group presents goodwill of PLN 32m, as well as intangible assets in the form the finite-lived brand name 'Puławy' of PLN 84m and indefinite-lived trademarks of PLN 89m.	As part of the audit, we analysed the process of impairment testing of intangible assets and goodwill performed by the Group, including an assessment of control mechanisms, identified indications of impairment, and reviewed the impairment tests performed by

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In accordance with IAS 36 Impairment of assets, the Group tests goodwill and trademarks with indefinite useful lives for impairment annually, while other intangible assets subject to depreciation, including the ‘Puławy’ brand name, are tested only if an indication of impairment has been identified. The assessment of potential impairment is based on estimates and is part of the Group management’s professional judgment.

The Group’s disclosures regarding the impairment tests of intangible assets and goodwill are included in Note 12 ‘Intangible assets’ to the accompanying consolidated financial statements.
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the Group.

Our procedures also included an assessment of the analyses prepared by the Group, including:
• Assessment of the assumptions adopted by the Group regarding future discounted cash flows, including a comparison of actual performance with forecasts;
• Comparison of applied discount rates with market data;
• Assessment of mathematical correctness of DCF models and reconciliation of source data with operational budgets adopted by the management of Group companies;
• Assessment of the adequacy of disclosures concerning impairment tests, including a sensitivity analysis prepared by the Group.
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Reasonableness of capitalisation and impairment of intangible assets capitalised based on IFRS 6

In the opening balance sheet, the Group disclosed material amounts of intangible assets related to exploration for and appraisal of mineral deposits.

During 2017, the Group decided to adjust the opening balance sheet with respect to these assets. Following an analysis of available documentation, the Group made a materiality judgment concluding that part of the expenditure capitalised in the past did not meet the requirements of IFRS 6 Exploration for and Evaluation of Mineral Resources (‘IFRS 6’) and should be recognised as cost and not as expenditure on exploration for and appraisal of deposits. In the Group’s opinion, such decision should have been made during the preparation of the Group’s consolidated financial statements for the year ended December 31st 2016, therefore the opening balance sheet was adjusted.

Furthermore, during the preparation of the Group’s consolidated financial statements for the year ended December 31st 2017, the Group decided to write off the balance of the expenditure capitalised under IFRS 6 by the
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Our audit procedures with respect to this key audit matter included:
• Discussions with the Management Board and the Audit Committee of Grupa Azoty Zakłady Chemiczne Police S.A.
• Assessment of the judgments and assumptions underlying the judgments regarding the existence of indications of impairment and the amount of impairment losses, based on an analysis of the source documentation submitted for the audit;
• Analysis of the documentation based on which the Group adjusted the opening balance sheet, including the forensic audit report prepared by an external adviser for the Group;
• Testing a selected sample of expenditures capitalised during the financial year in terms of compliance with the source documentation and fulfilment of conditions for recognising them as intangible assets;
• Assessment of the adequacy of
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subsidiary African Investment Group. Pursuant to IFRS 6, only certain types of expenditure related directly to a given exploration project may be capitalised as part of exploration and appraisal expenditure. The decision on which expenditure may be capitalised and the assessment of existence of indications of impairment are part of the Group's materiality judgments. The standard further indicates when the impairment test should be performed for assets relating to exploration for and appraisal of mineral resources, including in particular when facts and circumstances indicate that the carrying amount of the assets may exceed their recoverable amount. Due to the aforementioned areas requiring materiality judgment and estimates, and taking into account the materiality of the related amounts, this issue was considered a key audit matter. The Group's disclosures of assets relating to exploration for and appraisal of mineral resources, as well as adjustments to the opening balance sheet are included in Note 12 'Intangible assets' to the accompanying consolidated financial statements and in Section 2.4 'Changes in presentation of financial statements and correction of errors' of the accompanying consolidated financial statements.	disclosures required under IFRS 6 and IAS 8 (Accounting policies, changes in estimates, and correction of errors) in the consolidated financial statements.

Analysis of impairment of property, plant and equipment In the consolidated financial statements prepared as at December 31st 2017, the Group presents property, plant and equipment of PLN 6,780m, which accounts for 58% of the balance sheet total. The Group analysed the indications of impairment of property, plant and equipment. For property, plant and equipment with a carrying amount of PLN 287m, the Group determined that they needed to be tested for impairment. An analysis of these assets' recoverable amount is based on the results of impairment tests based on discounted cash flows associated with individual cash generating units. Impairment tests for property, plant and equipment largely depend on the Group's estimates, including the strategy, future revenue and expenses, planned capital expenditure, weighted average cost of capital, and the marginal growth rate, which depend on expectations with respect to future market and economic conditions. These forecasts are subject to a significant risk of change due to changing market conditions. For these reasons, we identified an analysis of property, plant and equipment impairment as a audit key matter. The Group's disclosures regarding the impairment tests of property, plant and equipment are included in Note 10 'Property, plant and equipment' to the accompanying consolidated financial statements.	Our audit procedures in relation to this key audit matter included: • Assessment of the Group's analysis of indications of impairment of property, plant and equipment; • Assessment of the assumed level of weighted average cost of capital, taking into consideration the results of valuation experts' work and market data; • Assessment of the adopted financial forecasts and macroeconomic assumptions by comparing key assumptions, including discount rates, underlying the impairment test, against market indicators and previously reported revenue streams, costs, margins, and cash flows; • Verification of the mathematical correctness of the DCF model and reconciliation of source data with the operational budgets adopted by the management of Group companies; • Assessment of the adequacy of disclosures regarding the impairment test, including an assessment of the sensitivity analysis in view of the requirements of IAS 36 *Impairment of Assets*.

Opinion

In our opinion, the accompanying consolidated financial statements:

- Give a true and fair view of the Group’s assets and financial position as at December 31st 2017, as well its financial performance in the financial year January 1st–December 31st 2017, in accordance with the International Accounting Standards, International Financial Reporting Standards, the related interpretations issued in the form of the European Commission’s regulations, and the applied accounting policies;
- Comply with the form and content requirements laid down in the laws and regulations applicable to the Group and in the Company’s Articles of Association.

Other matters

The consolidated financial statements for the previous financial year ended December 31st 2016 were audited by an auditor acting on behalf of another audit firm, who on April 26th 2017 issued an opinion with an emphasis-of-matter paragraph on those consolidated financial statements.

Report on other legal and regulatory requirements

Opinion on the Directors' Report

Our opinion on the consolidated financial statements does not cover the Directors' Report on the Group's operations.

The Management Board of the Company is responsible for preparation of the Directors' Report on the Group's operations in accordance with the Accounting Act and other applicable laws. The Management Board of the Company and members of its Supervisory Board are also required to ensure that the Directors' Report on the Group's operations complies with the requirements of the Accounting Act.

In accordance with the Act on Statutory Auditors, our duty was to issue an opinion on whether the Directors' Report on the Group's operations, with the exception of the 'Non-financial statement' section, was prepared in accordance with applicable laws and whether it is consistent with the information included in the accompanying consolidated financial statements.

Our responsibility was also to submit a representation on whether, based on our knowledge of the Group and its environment obtained during the audit of the accompanying consolidated financial statements, we identified any material misstatements in the Directors' Report and what is the nature of each such material misstatement, if any.

In our opinion, the Directors' Report on the Group's operations has been prepared in accordance with the applicable regulations and is consistent with the information contained in the accompanying consolidated financial statements. We further represent that, based on our knowledge of the Group and its environment obtained during the audit of the accompanying consolidated financial statements, we did not identify any material misstatements in the Directors' Report.

Opinion on the statement of compliance with corporate governance standards

The Management Board of the Company and members of the Company's Supervisory Board are responsible for preparing a statement of compliance with corporate governance standards in accordance with the law.

In accordance with the requirements of the Act on Statutory Auditors, in connection with the audit of the accompanying consolidated financial statements, our duty was to: (i) issue an opinion on whether the issuer obliged to submit a statement of compliance with corporate governance standards, included as a separate part in the Directors' Report on the Group's operations, presented in that statement information required by law, and (ii) with respect to certain information specified in these laws and regulations, determine whether it complies with the applicable regulations and is consistent with the information contained in the accompanying consolidated financial statements.

In our opinion, in the statement of compliance with corporate governance standards, the Company included the information specified in Par. 91.5.4.a, b, g, j, k and l 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 February 19th 2009 ('Regulation'). The information specified in Par. 91.5.4.c–f, h and i of the Regulation, contained in the statement of compliance with corporate governance standards, complies with the applicable regulations and is consistent with the information contained in the accompanying consolidated financial statements.

Information on preparation of non-financial statement

In accordance with the requirements of the Act on Statutory Auditors, we represent that in the Directors' Report on the Group's operations the Company included information on the preparation of a separate non-financial statement, referred to in Art. 49b.9 of the Accounting Act, and that the Company did prepare such separate statement.

We did not perform any assurance work regarding the separate non-financial statement and we do not give any assurance about it.

Warsaw, April 18th 2018

Lead Auditor	Partner
Piotr Chęciek Qualified Auditor entered in the register of qualified auditors under No. 13253	Leszek Lerch

acting on behalf of
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spółka z ograniczoną odpowiedzialnością sp. k.
Rondo ONZ 1, 00-124 Warsaw, Poland,
entered in the register of audit firms under No. 130