AUDITOR’S REPORT

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

Auditor’s report on the full-year financial statements Opinion

We have audited the full-year financial statements of Grupa Azoty S.A. (the ‘Company’) with its registered office at ul. Kwiatkowskiego 8, Tarnów, Poland, comprising the separate statement of profit or loss and other comprehensive income for the period from January 1st 2018 to December 31st 2018, the separate statement of financial position as at December 31st 2018, the separate statement of changes in equity, the separate statement of cash flows for the period from January 1st 2018 to December 31st 2018, and supplementary information to the separate financial statements, including a description of the accounting policies and notes to the separate financial statements (the ‘financial statements’).

In our opinion, the financial statements:

- give a true and fair view of the Company’s assets and financial position as at December 31st 2018, as well as its financial performance and cash flows for the period January 1st–December 31st 2018, in accordance with the applicable International Financial Reporting Standards as endorsed by the European Union and the adopted accounting policies;

- comply with the form and content requirements laid down in the laws and regulations applicable to the Company and its Articles of Association;

- were prepared on the basis of properly maintained accounting records, in accordance with Chapter 2 of the Accounting Act of September 29th 1994 (the ‘Accounting Act’).

This opinion is consistent with the additional report for the Audit Committee, which we issued on April 25th 2019.
Basis

We conducted our audit in accordance with the International Standards on Auditing adopted as Polish Financial Auditing Standards by the National Council of Statutory Auditors (Krajowa Rada Biegłych Rewidentów) and in accordance with the Polish Act on Statutory Auditors, Audit Firms, and Public Oversight of May 11th 2017 (the ‘Act on Statutory Auditors’) and 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 (the ‘EU Regulation’). Our responsibility under these standards is further described in the ‘Auditor’s responsibility for audit of the financial statements’ section of our report.

We are independent of the Company in accordance with the Code of Ethics for Professional Accountants of the International Federation of Accountants (the ‘IFAC Code’), adopted by resolutions of the National Council of Statutory Auditors and with other ethical requirements applicable to audits of financial statements in Poland. We have fulfilled our other ethical responsibilities in accordance with these requirements and the IFAC Code. During the audit, the lead auditor and the audit firm were independent of the Company in accordance with the independence criteria set out in the Act on Statutory Auditors and in the EU Regulation.

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

Key audit matters

Key audit matters are those which, according to our professional judgement, were the most significant during our audit of the financial statements for the relevant reporting period. They cover the most significant assessed risks of material misstatement, including material misstatement due to fraud. We addressed those matters in the context of our audit of the financial statements as a whole and when formulating our opinion, and we also summarised our response to those risks. Where we considered it relevant, we included key observations arising with respect to the particular risks. We do not express a separate opinion on those matters.
### Key audit matter

<table>
<thead>
<tr>
<th>Analysis of impairment of investments in related entities and property, plant and equipment</th>
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<tbody>
<tr>
<td><strong>Why this is a key audit matter</strong></td>
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<tr>
<td>In the financial statements as at December 31st 2018, the Company presented shares in related entities of PLN 5bn and property, plant and equipment of PLN 1.7bn, which account for, respectively 58% and 19% of total assets. During the financial year, the shareholdings increased by PLN 1.1bn, mainly on the acquisition of Goat TopCo GmbH.</td>
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<tr>
<td>As indications of impairment of some of those assets arising from market conditions were identified as at December 31st 2018, the Management Board performed impairment tests and estimated the recoverable amount of the cash-generating units.</td>
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<td>Impairment testing of investments in related entities and property, plant and equipment largely depends on the Management Board’s estimates, including the strategy, forecast revenue and expenses, planned capital expenditure, weighted average cost of capital, and the marginal growth rate, which are largely forward-looking and therefore subject to a significant risk of change due to changing market conditions. Given the embedded uncertainty as to the future realisation of material assumptions and the materiality of those assets, we considered the “Analysis of impairment of investments in related entities and property, plant and equipment” as a key audit matter.</td>
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### How we addressed the matter in our audit

<table>
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<tr>
<th>Audit approach</th>
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<td>Our audit procedures in relation to this key audit matter included:</td>
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<tr>
<td>• assessment of the Management Board’s analysis of indications of impairment for investments in related entities and property, plant and equipment,</td>
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<td>• assessment of the assumed level of weighted average cost of capital, with our valuation experts’ support,</td>
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<td>• assessment of the Management Board’s financial forecasts and macroeconomic assumptions by comparing key assumptions underlying the tests, including discount rates, against market indicators and previously reported revenue streams, costs, margins, and cash flows,</td>
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<tr>
<td>• verification of the mathematical correctness of the DCF models and reconciliation of source data with the operational budgets adopted by the Management Board,</td>
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<tr>
<td>• assessment of the adequacy of disclosures regarding the impairment tests, including assessment of the Management Board’s sensitivity analysis in view of the requirements of IAS 36 Impairment of Assets and IAS 1 Presentation of Financial Statements.</td>
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*Reference to disclosure in the financial statements*
For the Company’s disclosures concerning the impairment tests performed, see:

- Note 14.2 “Impairment of investments”, and
- Note 10 “Property, plant and equipment” of supplementary information to the financial statements.

<table>
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<tr>
<th>Measurement and assessment of recoverable amounts of deferred tax assets</th>
<th>Audit approach</th>
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</table>
| **Why this is a key audit matter**
In the financial statements as at December 31st 2018, the Company presented deferred tax assets of PLN 75m, including unused state aid in the form of a PLN 26m exemption from corporate income tax in respect of business activities conducted in a Special Economic Zone.

As at each reporting date, the Company’s Management Board prepares a projection of taxable income, as well as measures deferred tax assets and assesses their recoverable amounts. These actions are based on estimates and form the professional judgement of the Company’s management.

**Reference to disclosure in the financial statements**
For the measurements, estimates and assumptions disclosed by the Company with respect to the recoverable amounts of deferred tax assets, see Note 7.4 “Deferred tax assets and liabilities” of supplementary information to the consolidated financial statements.

Our audit procedures in relation to the key audit matter included:

- evaluation of the accounting policies and procedures, including controls, applied to measurement and recognition of deferred tax assets,
- assessment of key assumptions and estimates made by the Company’s Management Board with respect to projected sales volumes and profit margins, as well as with respect to temporary and permanent differences, on the basis of which the accounting result is adjusted to taxable income,
- assessment of key assumptions underlying the projections, including their verification against historical data and comparison of short-term assumptions against budgets adopted by the Management Board,
- assessment of the calculations of discounted eligible expenses incurred by the reporting date, taking into account the levels of state aid received,
- assessment whether the disclosures made in the financial statements with regard to the measurement of deferred tax assets are adequate.
Responsibility of the Management Board and Supervisory Board for the financial statements

The Management Board of the Company is responsible for the preparation, on the basis of properly maintained accounting records, of financial statements which give a true and fair view of the Company’s assets, financial position and financial performance in accordance with the International Financial Reporting Standards as endorsed by the European Union, the adopted accounting policies, the laws applicable to the Company and the Articles of Association of the Company, as well as for the internal control that the Management Board deems necessary to enable the preparation of financial statements that are free of any material misstatement, whether due to fraud or error.

When preparing financial statements, the Management Board of the Company is responsible for assessing the Company’s ability to continue as a going concern, for disclosing, if applicable, any issues pertaining to its continuation as a going concern, and for adoption of the going concern basis of accounting, except where the Management Board intends either to liquidate the Company or to discontinue its business, or if there is no viable alternative to such liquidation or discontinuation.
The Management Board of the Company and members of its Supervisory Board are required to ensure that the financial statements comply with the requirements of the Accounting Act. Members of the Supervisory Board are responsible for supervising the Company’s financial reporting process.

**Auditor’s responsibility for audit of the financial statements**

Our objectives are to obtain reasonable assurance about whether the 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 Polish Financial Auditing 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 financial statements.

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 financial statements and in forming the auditor’s opinion. Accordingly, all opinions and statements contained in the audit report are made taking into account the qualitative and quantitative materiality levels determined in accordance with the auditing standards and the auditor’s professional judgement.

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

In auditing financial statements in accordance with the Polish Financial Auditing Standards, we apply professional judgement and maintain professional scepticism, as well as:

- identify and assess risks of material misstatement of the financial statements, whether due to fraud or error, plan and perform audit procedures adequate to the identified risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. 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,

- obtain understanding of internal controls relevant to the audit 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,
- evaluate the appropriateness of the accounting policies applied and the reasonability of the accounting estimates and related disclosures made by the Company’s Management Board,

- draw a conclusion as to the appropriateness of application of the going concern basis of accounting by the Company’s Management Board and, based on the audit evidence obtained, a conclusion as to whether any material uncertainty exists related to any events or conditions that may cast significant doubt on the Company’s ability to continue as a going concern. If we conclude that such material uncertainty exists, we are required to draw attention in our auditor’s report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor’s report. However, future events or conditions may cause the Company to cease to continue as a going concern,

- evaluate the overall presentation, structure and content of the financial statements, including all disclosures, and assess whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We provide the Audit Committee with information on, among other things, the planned scope and timing of the audit, as well as on significant audit findings, including findings of any significant deficiencies in internal control that we have identified during the audit.

We also provide the Audit Committee with a statement that we have complied with the relevant ethical requirements, including those relating to independence, and that we will communicate to the Audit Committee all relationships and other matters that may reasonably be thought to bear on our independence and, where applicable, related safeguards.

From the matters communicated to the Audit Committee, we determined those matters that were of most significance in the audit of the financial statements for the relevant reporting period and were therefore considered key audit matters. We describe these matters in our auditor’s report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Other information, including the Directors’ Report

Other information includes the Directors’ Report on the Company’s operations in the period from January 1st 2018 to December 31st 2018 (the ‘Directors’ Report’), together with the statement of compliance with corporate governance standards, which is a separate section of that report (jointly ‘Other Information’).
Responsibility of the Management Board and Supervisory Board

The Management Board of the Company is responsible for preparing Other Information in accordance with the law.

The Management Board of the Company and members of its Supervisory Board are also required to ensure that the Directors’ Report on the Company’s operations and its specific sections comply with the requirements of the Accounting Act.

Auditor’s responsibility

Our opinion on the audited financial statements does not cover Other Information. In connection with our audit of the financial statements, it is our responsibility to read Other Information and consider whether it is not materially inconsistent with the financial statements or our knowledge obtained during the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of Other Information, we are required to report that fact. In accordance with the Act on Statutory Auditors, our responsibility is also to issue an opinion on whether the Directors’ Report was prepared in accordance with applicable laws and whether it is consistent with the information included in the financial statements.

In addition, we are required to express an opinion on whether the Company has included the required information in the statement of compliance with corporate governance standards.

Opinion on the Directors’ Report

Based on the work we have performed as part of our audit, we believe that the Directors’ Report on the Company’s operations:

- was prepared in accordance with Art. 49 of the Accounting Act and Par. 70 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 (the ‘Regulation on Current Information’),

- contains information consistent with information disclosed in the financial statements.

We further represent that, based on our knowledge of the Company and its environment obtained during the audit, we did not identify any material misstatements in the Directors’ Report.
Opinion on the statement of compliance with corporate governance standards

In our opinion, in the statement of compliance with corporate governance standards, the Company included the information specified in Par. 70.6.5 of the Regulation on Current Information.

Furthermore, in our opinion, the information specified in Par. 70.6.5.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 financial statements.

Non-financial statement

In accordance with the requirements of the Act on Statutory Auditors, we represent that in the Directors’ Report 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.

Report on other legal and regulatory requirements

Moreover, in our opinion, in Note 33 the Company presented items of the statement of profit or loss and items of the statement of financial position separately for its business activities consisting in electricity distribution and gas fuel trading in accordance, in all material respects, with Art. 44 of the Energy Law (the “Energy Law”) of April 10th 1997.

The scope of regulatory financial information included in Note 33 is defined in Art. 44 of the Energy Law. In our audit, we did not assess whether the information required to be disclosed pursuant to the Energy Law was sufficient to ensure non-discrimination of customers and elimination of cross subsidisation between different lines of business.
Representation on the provision of non-audit services

To the best of our knowledge and belief, we hereby represent that the non-audit services that we have provided to the Company and its subsidiaries are compliant with the applicable laws and regulations in Poland and we have not provided any non-audit services that are prohibited under Article 5(1) of the EU Regulation or Art. 136 of the Act on Statutory Auditors. The non-audit services that we provided to the Company and its subsidiaries in the audited reporting period are specified in the Directors’ Report.

Appointment of audit firm

We were first appointed to audit the financial statements of the Company pursuant to a resolution of the Company’s Supervisory Board of March 28th 2017. We have been auditing the Company’s financial statements starting from the financial year ended December 31st 2017, i.e. for two consecutive years.

Warsaw, April 25th 2019

Lead Auditor


Piotr Chęciek
Auditor
registered under No. 13253

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

Partner


Leszek Lerch