

Auditor's Report for the General Meeting and 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"), containing the separate statement of financial position as at December 31st 2020, the separate statement of profit or loss and other comprehensive income, separate statement of changes in equity and separate statement of cash flows for the financial year January 1st-December 31st 2020, and notes to the financial statements, comprising a description of adopted accounting policies and other explanatory information (the "financial statements", the "Full-Year Report").

In our opinion, the financial statements:

- give a true and fair view of the Company's assets and financial position as at December 31st 2020, as well as of its financial result and cash flows for the year then ended, in accordance with 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" - consolidated text: Dz.U. of 2021, item 217).

This opinion is consistent with the additional report for the Audit Committee, which we issued on April 12th 2021.

Basis for opinion

We conducted our audit in accordance with National Standards on Auditing compliant with International Standards on Auditing, adopted by resolution of the National Council of Statutory Auditors (the "NSA") and pursuant to the Act on Statutory Auditors, Audit Firms and Public Oversight of May 11th 2017 (the "Act on Statutory Auditors" - consolidated text: Dz.U. of 2020, item 1415) and EU Regulation No. 537/2014 of April 16th 2014 on specific requirements regarding statutory audit of public-interest entities (the "EU Regulation" - OJEU L158). 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 International Code of Ethics for Professional Accountants (including International Independence Standards) of the International Ethics Standards Board for Accountants (the "IESBA Code") adopted by resolution of the National Council of Statutory Auditors and with other ethical requirements applicable to the audit of financial statements in Poland. We have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA 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.

1. Analysis of impairment of investments in subsidiaries

In the financial statements as at December 31st 2020, the Company presented shares held in subsidiaries, with a value of PLN 5,699,604 thousand, representing 57.9% of the Company's total assets.

In accordance with the Company's accounting policies, shares in subsidiaries are recognised at cost less impairment losses.

Estimates of impairment of investments in subsidiaries are largely dependent on assessment of future events and as such are 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 subsidiaries to be a key audit matter.

Disclosures in the financial statements

Details of the Company's accounting policy for the valuation of shares in subsidiaries, including the principles applied in recognising impairment losses, are presented in Note 14 to the separate financial statements.

In addition, in Note 14.1 and Note 14.2 to the separate financial statements, the Company disclosed figures concerning the identified key audit matter.

Audit procedures conducted in response to the identified risk

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

- assessment of the consistency of the Company's accounting policy for measurement of investments in subsidiaries with the principles set out in the relevant financial reporting standards;
- identification, understanding and assessment of the process of impairment testing of shares in subsidiaries and the related internal control;
- analysis of the financial statements of the subsidiaries, including their financial results, comparison of the net exposure in the Company's accounting books to the net asset value of the subsidiaries to identify possible indications of impairment of shares;
- assessment of the Management Board's analysis of indications of impairment of investments in subsidiaries;
- with the support of our valuation specialists - assessment of the macroeconomic assumptions used in the model by the Company's Management Board, including the discount rate, by comparing them with publicly available information, and verification of key assumptions and rationality of business

projections, regarding in particular sales, production and operating expenses, by comparing them with historical data, and in the case of forecast prices - with publicly available external projections;

- verification of previous years' budgets against actual performance;
 - analysis of the sensitivity of the model to changes in assumptions;
 - assessment of the analysis submitted by the Company's Management Board of the effect of COVID-19 and events after the reporting date on prudent valuation;
 - assessment of the adequacy of disclosures regarding impairment testing on shares in subsidiaries.
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2. Analysis of impairment of property, plant and equipment

In the financial statements as at December 31st 2020, the Company presented property, plant and equipment with a value of PLN 1,642,695 thousand, representing 16.7% of the Company's total assets.

As indications of impairment, related mainly to market conditions, were identified as at December 31st 2020, the Company's Management Board performed an impairment test and estimated the recoverable amount of cash-generating units.

Impairment testing of property, plant and equipment largely relies on estimates made by the Company's Management Board, including those relating to the strategy, revenue and cost forecasts, planned capital expenditure, weighted average cost of capital and the marginal growth rate. The estimates are largely forward-looking and therefore subject to a significant risk of change due to changing market conditions. Given the inherent uncertainty as to the future realisation of material assumptions and the materiality of those assets, we considered the analysis of impairment of property, plant and equipment to be a key audit matter.

Disclosures in the financial statements

Details of the accounting policy applied by the Company to measure property, plant and equipment are presented in Note 10 to the separate financial statements.

In addition, in Note 10 to the separate financial statements, the Company disclosed the figures relating to the identified key audit matter and the key assumptions underlying the impairment test.

Audit procedures conducted in response to the identified risk

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

- assessment of compliance of the Company's accounting policies for measurement of property, plant and equipment with the applicable financial reporting standards;
 - obtaining an understanding and making a critical assessment of the principles and process of recognising impairment losses;
 - assessment of the Company's Management Board's analysis of indications of impairment;
 - obtaining impairment tests for cash-generating units with impairment risk, conducted as at December 31st 2020;
 - with the support of our valuation specialists - assessment of the macroeconomic assumptions used in the model by the Parent's Management Board, including the discount rate, by comparing them with publicly available information, and verification of key assumptions and rationality of business
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- projections, regarding in particular sales, production and operating expenses, by comparing them with historical data, and in the case of forecast prices - with publicly available external projections;
- assessment of the analysis submitted by the Company’s Management Board of the effect of COVID-19 and events after the reporting date on prudent valuation;
 - assessment of the adequacy of impairment testing disclosures in light of the requirements of IAS 36 Impairment of Assets and IAS 1 Presentation of Financial Statements.
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3. Investment agreement executed under the Polimery Police project by subsidiary Grupa Azoty Polyolefins S.A.

Grupa Azoty S.A. is a shareholder in Grupa Azoty Polyolefins S.A. (“GA Polyolefins”), which is implementing the Polimery Police project. The Shareholders’ Agreement (the “Agreement”) concluded by the original sponsors (Grupa Azoty S.A. and Grupa Azoty Zakłady Chemiczne Police S.A.) and GA Polyolefins with Co-Sponsors (Lotos, Hyundai and KIND), setting out the terms and conditions of financing the project, provides for mechanisms enabling the Co-Sponsors to exit the investment in GA Polyolefins. Given their legal and economic character, the mechanisms are treated as financial instruments (put/call option and the obligation to repurchase and cancel shares).

In the financial statements as at December 31st 2020, the Company presented the following derivative instruments: financial assets - a call option of PLN 43,342 thousand, and financial liabilities - a put option of PLN 19,038 thousand. The effect on profit or loss was PLN 24,304 thousand.

The valuation of rights and obligations to repurchase shares in GA Polyolefins from the non-controlling shareholders - the call option and the put option under the Shareholders’ Agreement - was considered a key audit matter due to the significant effect of management’s judgments on the adopted assumptions providing the basis for the valuations and the significant complexity of the economic transaction.

Disclosures in the financial statements

Details of the accounting policy applied by the Company to measure the derivative instruments, including with respect to the Agreement, are presented in Note 30.6 to the separate financial statements.

In addition, in Note 30.6 to the separate financial statements, the Company disclosed figures concerning the identified key audit matter.

Audit procedures conducted in response to the identified risk

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

- analysis of the Shareholders’ Agreement and the rights and obligations of each of its parties in the context of the exit mechanisms;
 - obtaining an understanding of the Agreement’s business objectives;
 - assessing the correctness of identification by the Company’s Management Board of financial instruments embedded in the Agreement;
 - assessing the correctness of recognising the accounting effects of the performance of the Agreement;
 - engaging a specialist in measurement of financial instruments and:
 - analysing the pricing model of the options embedded in the Agreement, provided by the Company,
 - verifying the correctness of the model and the calculation,
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- verifying the completeness of disclosures required to be made in the financial statements for compliance with IFRS 7 *Financial Instruments: Disclosures* and IAS 1 *Presentation of Financial Statements*.
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Other matter

The financial statements of the Company for the year ended December 31st 2019 were audited by an auditor acting on behalf of another audit firm. The auditor issued an unqualified opinion on those financial statements on April 7th 2020.

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 International Financial Reporting Standards as endorsed by the European Union, the adopted accounting policies, the laws applicable to the Company and its Articles of Association, 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 Company's Management Board and members of the Supervisory Board are responsible for ensuring that the financial statements meet the requirements stipulated in 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 NSA 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.

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 on the future viability of the 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 NSA, 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 accounting policies used and the reasonableness of 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 which 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 the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation;

We communicate with the Supervisory Board of the Company regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Supervisory Board of the Company with a statement that we have complied with relevant ethical requirements regarding independence and that we will communicate with the Supervisory Board 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 Supervisory Board, 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 operations of Company and the Grupa Azoty Group (the "Group"), whose parent is the Company, for the financial year ended December 31st 2020 (the "Directors' Report"), together with the statement of compliance with corporate governance standards and the non-financial statement referred to in Art. 49b.1 of the Accounting Act, which are separate sections of the Directors' Report.

Pursuant to Art. 55.2a of the Accounting Act and Par. 71.8 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), the Company's Management Board prepared, in the form of a single document, a consolidated Directors' Report on the operations of the Grupa Azoty Group, to which we referred to in the auditor's report on the consolidated financial statements of the Grupa Azoty Group.

Report on other legal and regulatory requirements

Opinion on the requirements of Art. 44 of the Energy Law

Our opinion from the audit of the financial statements includes an opinion on regulatory financial information (“Regulatory Information”) prepared in accordance with the requirements of Art. 44 of the Energy Law of April 10th 1997 (the “Energy Law” - consolidated text: Dz.U. of 2020, item 833, as amended).

In accordance with applicable laws, preparation of the Regulatory Information is the responsibility of the Company’s Management Board. In addition, the Company’s Management Board is required to ensure that the Regulatory Information is prepared in accordance with the requirements of Art. 44 of the Energy Law.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion on compliance of the Regulatory Information with the requirements of Art. 44 of the Energy Law.

In our opinion, the Regulatory Information presented in Note 36 *Regulatory financial information by type of activity in accordance with Art. 44 of the Energy Law* to the separate financial statements, prepared for the period January 1st-December 31st 2020 is consistent, in all material respects, with the provisions of Art. 44 of the Energy Law.

Representation on the provided 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 we provided to the Company and its subsidiaries in the audited period are specified in the Directors’ Report on the operations of the Company and the Group.

Selection of audit firm

We were selected to audit the Company’s financial statements by resolution of the Company’s Supervisory Board of September 12th 2019.

It is our first audit of the Company’s financial statements.

The lead auditor responsible for the audit the outcome of which is this auditor's report is Marcin Krupa.

BDO spółka z ograniczoną odpowiedzialnością sp.k. of Warsaw
entered in the list of audit firms under Reg. No. 3355

on behalf of which the lead auditor has audited the financial statements

Signed with qualified electronic signature

Signed with qualified electronic signature

Marcin Krupa Auditor registered under No. 11142

André Helin, PhD President of the General
Partner's Management Board Auditor registered
under No. 90004

Kraków, April 12th 2021