



Grupa Azoty S.A. Group

**Opinion and Report
of the Independent Auditor
Financial Year ended
31 December 2016**



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OPINION OF THE INDEPENDENT AUDITOR

To the General Meeting of Grupa Azoty S.A.

Opinion on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of the Group, whose parent entity is Grupa Azoty S.A. with its registered office in Tarnów, ul. Kwiatkowskiego 8 (“the Group”), which comprise the consolidated statement of financial position as at 31 December 2016, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated 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 Consolidated Financial Statements

Management of the Parent Entity is responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards as adopted by the European Union and with other applicable regulations. Management of the Parent Entity is also responsible for such internal control as management determines is necessary to enable the preparation of consolidated 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 2016, item 1047 with amendments) (“the Accounting Act”), Management of the Parent Entity and members of the Supervisory Board are required to ensure that the consolidated financial statements are in compliance with the requirements set forth in the Accounting Act.

Auditor’s Responsibility

Our responsibility is to express an opinion on these consolidated financial statements 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 resolution dated 10 February 2015 of the National Council of Certified Auditors as 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our 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, we consider internal control relevant to the entity's preparation of consolidated financial statements that give a true and fair view 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 Parent Entity, as well as evaluating the overall presentation of the consolidated 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 consolidated financial statements of Grupa Azoty S.A. Group:

- give a true and fair view of the financial position of the Group as at 31 December 2016 and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union; and
- comply, in all material respects, with applicable regulations that apply to the consolidated financial statements of the Group.

Comparative information

Without qualifying our opinion, we draw attention to the information presented in point 2.3.2 of notes to the consolidated financial statements which described the corrections to the comparative information presented in these consolidated financial statements as at 31 December 2015 and for the year then ended and as at 1 January 2015. As part of our audit of the consolidated financial statements we performed audit procedures with respect to the documentation provided by the Group which was the basis for the corrections made, which was unknown to us during the audits for 2014 and 2015, which included information relating to facts and circumstances that existed at the date of acquisition of the subsidiary and which was available as at the date of completion of the acquisition accounting, as presented in the consolidated financial statements as at and for the year ended 31 December 2014.

Specific Comments on Other Legal and Regulatory Requirements

Report on the Group's Activities

Management of the Parent Entity is responsible for the report on the Group's activities.

Our opinion on the consolidated financial statements does not cover the report on the Group's activities.

As required by the Accounting Act, and 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 of information required by the laws of a non-member state (Official Journal from 2014, item 133 with amendments) (the "Decree") we report that the accompanying report on the Parent Entity and the Group's activities includes the information required by Art. 49 of the Accounting Act and the Decree and the information is consistent, in all material respects, with the consolidated financial statements. Furthermore, based on our knowledge about the Group and its environment obtained in the audit, we have not identified material misstatements in the report on the Group's activities.

As required by the Accounting Act and the Decree, we report that the statement of corporate governance, which is a separate part of the report on the Parent Entity and the Group's activities, includes the information required by paragraph 91 subparagraph 5 point 4 letter a, b, j and k of the Decree. Furthermore we report that the information identified in paragraph 91 subparagraph 5 point 4 letter c, d, e, f, h and i of the Decree, included in the statement of corporate governance, in all material respects:

- has been prepared in accordance with the applicable regulations; and
- is consistent with the information contained in the consolidated financial statements.

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

26 April 2017



Grupa Azoty S.A. Group

**Report on the audit
of the consolidated financial statements**

**Financial Year ended
31 December 2016**



Grupa Azoty S.A. Group

The report on the audit of the consolidated financial statements
for the financial year ended 31 December 2016

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Grupa Azoty S.A. Group

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1. General

1.1. Identification of the Group

1.1.1. Name of the Group

Grupa Azoty S.A. Group

1.1.2. Registered office of the Parent Company of the Group

ul. Kwiatkowskiego 8
33-101 Tarnów

1.1.3. Registration of the Parent Entity 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 Parent Entity

The Management Board is responsible for management of the Parent Entity.

As at 31 December 2016, the Management Board of the Parent Entity comprised of the following members:

- Wojciech Wardacki – President of the Management Board,
- Tomasz Hinc – Vice-President of the Management Board,
- Paweł Łapiński – Vice-President of the Management Board,
- Józef Rojek – Vice-President of the Management Board,
- Witold Szczypiński – Vice-President of the Management Board,
- Artur Kopeć – Member of the Management Board.

Based on the resolution of the Supervisory Board dated 19 February 2016, Paweł Jarczewski, President of the Management Board and Krzysztof Jałosiński, Marek Kaptucha and Marian Rybak, Vice-Presidents of the Management Board, were dismissed from 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.

Based on the resolution of the Supervisory Board dated 14 March 2016, Józef Rojek was appointed for the position of the Member of the Management Board.

Based on the resolution of the Supervisory Board dated 20 May 2016, Józef Rojek was appointed for the position of the Vice-President of the Management Board. On the same day, based on the resolution of the Supervisory Board, Tomasz Hinc and Paweł Łapiński were appointed for the positions of the Vice-Presidents of the Management Board and Andrzej Skolmowski was recalled from the position of the Vice-President of the Management Board.



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Based on the resolution of the Supervisory Board dated 16 December 2016, Wojciech Wardacki replaced Mariusz Bober as 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 Audyty 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 Audyty 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 consolidated financial statements

The consolidated financial statements for the financial year ended 31 December 2015 were audited by KPMG Audyty Sp. z o.o. and received an unmodified opinion.

The consolidated financial statements were approved at the General Meeting of the Parent Entity on 5 July 2016.

The consolidated financial statements were submitted to the Registration Court on 22 July 2016.

1.4. Audit scope and responsibilities

The Parent Entity prepares its consolidated 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 consolidated 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 2016, item 1047 with amendments) ("the Accounting Act") and International Standards on Auditing as adopted by the resolution dated 10 February 2015 of the National Council of Certified Auditors as National Standards on Assurance.

We audited the consolidated financial statements at the Group entities during the period from 24 to 27 October, from 16 November to 2 December 2016 and from 16 January to 8 February 2017.



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Management of the Parent Entity is responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards as adopted by the European Union and with other applicable regulations. Management of the Parent Entity is also responsible for the report on the Group's activities.

Our responsibility is to express an opinion and to prepare a report on the audit of the financial statements.

The Management Board of the Parent Entity submitted a statement, dated as at the same date as this report, as to the preparation of the consolidated financial statements that give a true and fair view, which confirmed that there were no undisclosed matters which could significantly influence the information presented in the consolidated financial statements.

All required statements, explanations and information were provided to us by Management of the Group 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 are independent of the entities within the Group in accordance with the Code of Ethics for Professional Accountants of the International Ethics Standards Board for Accountants' as adopted by the resolution of National Council of Certified Auditors dated 13 June 2011 ("IESBA Code") and the impartiality and 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 2016, item 1000) and have fulfilled other ethical responsibilities in accordance with these regulations and the IESBA Code.



Grupa Azoty S.A. Group

The report on the audit of the consolidated financial statements
for the financial year ended 31 December 2016

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2. Financial analysis of the Group

2.1. Summary analysis of the consolidated financial statements

2.1.1. Consolidated statement of financial position

ASSETS	31.12.2016	% of total	31.12.2015	% of total	1.01.2015	% of total
	PLN '000		PLN '000		PLN '000	
			<i>restated</i>		<i>restated</i>	
Non-current assets						
Property, plant and equipment	6 387 823	57.8	5 664 447	54.0	5 132 078	53.1
Perpetual usufruct right	485 396	4.4	492 061	4.7	498 499	5.1
Intangible assets	530 577	4.8	522 442	5.5	509 964	5.3
Goodwill	10 057	0.1	12 550	0.1	12 600	0.1
Investment property	59 504	0.5	52 204	0.5	54 968	0.6
Investments in subordinated entities	112 935	1.0	111 095	1.1	110 842	1.1
Available-for-sale financial assets	12 345	0.1	12 370	0.1	12 371	0.1
Other financial assets	837	0.1	4 347	0.0	19 054	0.2
Other receivables	6 259	0.0	7 023	0.1	2 932	0.0
Deferred tax assets	45 548	0.4	64 124	0.6	92 625	1.0
Other non-current assets	199	0.1	-	-	4 675	-
Total non-current assets	7 651 480	69.1	6 942 663	66.2	6 450 608	66.6
Current assets						
Inventories	858 029	7.8	958 769	9.1	1 152 673	11.9
Property rights	214 675	2.0	226 931	2.2	198 192	2.0
Other financial assets	591 661	5.4	498 711	4.8	64 611	0.7
Derivatives	8 435	0.1	4 174	0.0	3 873	0.0
Current tax assets	3 750	0.0	2 156	0.0	6 720	0.1
Trade and other receivables	1 073 396	9.7	1 096 286	10.4	1 248 079	12.9
Cash and cash equivalents	641 711	5.8	753 144	7.2	558 603	5.8
Other receivables	8 092	0.1	9 117	0.1	-	-
Assets held for sale	691	0.1	3 123	0.0	107	0.0
Total current assets	3 400 440	30.9	3 552 411	33.8	3 232 858	33.4
TOTAL ASSETS	11 051 920	100.0	10 495 074	100.0	9 683 466	100.0



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Consolidated statement of financial position (continued)

EQUITY AND LIABILITIES	31.12.2016	% of total	31.12.2015	% of total	1.01.2015	% of total
	PLN '000		PLN '000		PLN '000	
			<i>restated</i>		<i>restated</i>	
Equity						
Share capital	495 977	4.9	495 977	4.7	495 977	5.1
Share premium	2 418 270	21.9	2 418 270	23.1	2 418 270	25.0
Hedging reserve	(7 105)	0.0	65	0.0	-	-
Translation reserve	2 401	0.2	(39)	0.0	322	0.0
Retained earnings, including:	3 626 334	32.1	3 371 422	32.1	2 767 534	28.6
<i>Profit for the year</i>	<i>343 339</i>	<i>3.1</i>	<i>604 552</i>	<i>5.8</i>		
Total equity attributable to owners of the Parent Company	6 533 877	59.2	6 285 695	59.9	5 682 103	58.7
Non-controlling interests	595 388	5.4	625 753	6.0	594 889	6.1
Total equity	7 129 265	64.5	6 911 448	65.9	6 276 992	64.8
Liabilities						
Loans	1 372 047	12.4	1 047 450	10.1	476 932	4.9
Other financial liabilities	15 102	0.1	16 112	0.2	20 205	0.2
Employee benefits	321 209	2.9	326 968	3.1	312 419	3.3
Provisions	97 692	0.9	100 740	1.1	113 106	1.2
Trade and other payables	1 082	0.1	972	0.0	1 498	0.0
Government grants	68 431	0.6	47 036	0.4	39 993	0.4
Deferred tax liabilities	196 805	1.8	188 381	1.8	173 991	1.8
Total non-current liabilities	2 072 368	18.7	1 727 659	16.5	1 138 144	11.8
Loans	52 034	0.5	118 880	1.1	509 259	5.3
Derivatives	8 213	0.1	986	0.1	1 163	0.0
Other financial liabilities	67 485	0.6	56 672	0.5	78 212	0.8
Employee benefits	39 917	0.4	33 167	0.3	30 494	0.3
Provisions	39 324	0.4	45 647	0.4	36 689	0.4
Current tax liabilities	30 553	0.3	18 986	0.2	2 934	0.0
Trade and other payables	1 602 929	14.4	1 576 538	15.1	1 606 597	16.6
Government grants	9 832	0.1	5 091	0.0	2 982	0.0
Total current liabilities	1 850 287	16.8	1 855 967	17.6	2 268 330	23.4
Total liabilities	3 922 655	35.5	3 583 626	34.1	3 406 474	35.2
TOTAL EQUITY AND LIABILITIES	11 051 920	100.0	10 495 074	100.0	9 683 466	100.0



Grupa Azoty S.A. Group

The report on the audit of the consolidated financial statements
for the financial year ended 31 December 2016
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2.1.2. Consolidated statement of profit or loss and other comprehensive income

	1.01.2016 - 31.12.2016	% of total sales	1.01.2015 - 31.12.2015 zł '000 <i>restated</i>	% of total sales
Revenue	8 955 690	100.0	10 007 896	100.0
Cost of sales	(6 997 921)	(78.1)	(7 741 978)	(77.4)
Gross profit	1 957 769	21.9	2 265 918	22.6
Selling and distribution expenses	(669 315)	(7.5)	(630 248)	(6.3)
Administrative expenses	(729 629)	(8.0)	(736 546)	(7.4)
Other income	47 379	0.5	59 808	0.6
Other expenses	(120 142)	(1.3)	(134 527)	(1.3)
Results from operating activities	486 062	5.6	824 405	8.2
Finance income	34 227	0.5	38 294	0.4
Finance costs	(44 343)	(0.5)	(47 576)	(0.5)
Net finance costs	(10 116)	0.0	(9 282)	(0.1)
Share of profit of equity-accounted investees	15 170	0.1	13 737	0.1
Profit before tax	491 116	5.5	828 860	8.3
Tax expense	(115 964)	(1.3)	(150 641)	(1.5)
Profit for the year	375 152	4.2	678 219	6.8
OTHER COMPREHENSIVE INCOME				
Items that will never be reclassified to profit or loss				
Remeasurements of defined benefit liability	(10 333)	(0.1)	(6 987)	(0.1)
Tax on items that will never be reclassified to profit or loss	1 937	(0.0)	1 309	0.0
	(8 396)	(0.1)	(5 678)	(0.1)
Items that are or may be reclassified to profit or loss				
Cash flow hedges – effective portion of change in fair-value	(8 852)	(0.1)	65	0.0
Foreign currency translation differences - foreign operations	1 267	0.0	(526)	0.0
Tax on items that are or may be reclassified to profit or loss	1 682	0.0	-	0.0
	(5 903)	(0.1)	(461)	0
Other comprehensive income for the year	(14 299)	(0.2)	(6 139)	(0.1)
Profit or loss and other comprehensive income for the year	360 853	4.0	672 080	6.6
Profit attributable to:				
Equity holders of the Parent Company	343 339	3.8	609 499	6.1
Non-controlling interests	31 813	0.4	73 667	0.7
Total comprehensive income attributable to:				
Equity holders of the Parent Company	331 026	3.7	599 496	6.0
Non-controlling interests	29 763	0.3	72 584	0.7
Earnings per share				
Basic earnings per share (PLN)	3.46		6.09	
Diluted earnings per share (PLN)	3.46		6.09	



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2.2. Selected financial ratios

	2016	2015 <i>restated</i>
1. Return on sales		
<u>profit for the year x 100%</u> revenue	4.2%	6.8%
2. Return on equity		
<u>profit for the year x 100%</u> equity - profit for the year	5.6%	10.9%
3. Debtors' days		
<u>average trade receivables (gross) x 365 days</u> revenue	33 days	31 days
4. Debt ratio		
<u>liabilities x 100%</u> equity and liabilities	35.5%	34.1%
5. Current ratio		
<u>current assets</u> current liabilities	1.8	1.9

- Current assets exclude trade receivables due in more than 12 months.
- Current liabilities are comprised of short-term provisions for liabilities, short-term liabilities (excluding trade liabilities due in more than 12 months) and other short-term accruals.
- Net revenue includes revenue from sales of finished products, merchandise and raw materials.
- Average trade receivables represent the average of trade receivables from related parties and third parties at the beginning and at the end of the period, with no deduction made for allowances.



Grupa Azoty S.A. Group

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3. Detailed report

3.1. Accounting principles

The Parent Entity maintains current documentation describing the accounting principles applied by the Group and adopted by the Management Board of the Parent Entity.

The accounting principles are described in the notes to the consolidated financial statements to the extent required by International Financial Reporting Standards as adopted by the European Union.

In view of the fact that not all entities being part of the Group apply common accounting principles consistent with the accounting principles applied by the Parent Entity, appropriate adjustments to the financial statements of those entities were made to ensure consistency with the accounting principles applied by the Parent Entity.

The financial statements of the entities included in the consolidated financial statements were prepared at the end of the same reporting period as the financial statements of the Parent Entity.

3.2. Basis of preparation of the consolidated financial statements

The consolidated financial statements of the Grupa Azoty S.A. Group were prepared in accordance with International Financial Reporting Standards as adopted by the European Union and with other applicable regulations.

The consolidated financial statements were prepared on the basis of the consolidation documentation prepared in accordance with the requirements the Decree of the Ministry of Finance dated 25 September 2009 on principles for the preparation of consolidated financial statements of a capital group by companies other than banks and insurance companies (Official Journal from 2009 No. 169, item 1327 with amendments).

3.3. Method of consolidation

The method of consolidation is described in point 2.8 of the notes to the consolidated financial statements.

3.4. Goodwill arising on consolidation

The method of calculating goodwill arising on consolidation is described in points 2.8.4 and 2.13.3 of the notes to the consolidated financial statements.

3.5. Consolidation of equity and calculation of non-controlling interest

The share capital of the Group is equal to the share capital of the Parent Entity.

Other equity items of the Group are determined by adding the equity balances of subsidiaries included in the consolidated financial statements in the proportion reflecting the Parent Entity's share in the subsidiaries' equity as at the end of the reporting period to the corresponding positions of the equity of the Parent Entity.

Only equity of subsidiaries arising after the Parent Entity obtained control of the subsidiary is included in the equity of the Group.

Non-controlling interests in subsidiaries included in the consolidated financial statements were determined based on the non-controlling interests' share in the subsidiaries' equity as at the end of the reporting period.



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3.6. Consolidation eliminations

Intercompany balances within the Group were eliminated on consolidation.

Sales between entities and other intercompany operating revenues and expenses and financial revenues and expenses were eliminated on consolidation.

The consolidation eliminations were based on the accounting records of Grupa Azoty S.A. (or subsidiaries) and agreed with information received from the subsidiaries.

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

26 April 2017