



Grupa Azoty S.A.

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



KPMG Audyt Sp. z o.o.
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OPINION OF THE INDEPENDENT AUDITOR

To the General Meeting of Grupa Azoty S.A.

Opinion on the Separate Financial Statements

We have audited the accompanying separate financial statements of Grupa Azoty S.A., with its registered office in Tarnów, ul. Kwiatkowskiego 8 (“the Company”), which comprise the separate statement of financial position as at 31 December 2016, the separate statement of profit or loss and other comprehensive income, the separate statement of changes in equity and the separate statement of cash flows for the year then ended and notes comprising a summary of significant accounting policies and other explanatory information.

Management’s and Supervisory Board’s Responsibility

Management of the Company is responsible for the preparation, on the basis of properly maintained accounting records, of 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 Company is also responsible for such internal control as management determines is necessary to enable the preparation of the financial statements that are free from material misstatement, whether due to fraud or error.

According to the Accounting Act dated 29 September 1994 (Official Journal from 2016, item 1047 with amendments) (“the Accounting Act”), Management of the Company and members of the Supervisory Board are required to ensure that the 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 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 financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation of 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 Company, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the accompanying separate financial statements of Grupa Azoty S.A.:

- give a true and fair view of the unconsolidated financial position of the Company as at 31 December 2016 and of its unconsolidated financial performance and its unconsolidated cash flows for the year then ended, in accordance with International Financial Reporting Standards as adopted by the European Union;
- comply, in all material respects, with the applicable regulations and the provisions of the Company's articles of association that apply to the Company's financial statements; and
- have been prepared from accounting records, that, in all material respects, have been properly maintained.

Specific Comments on Other Legal and Regulatory Requirements

Report on the Company's Activities

Management of the Company is responsible for the report on the Company's activities.

Our opinion on the separate financial statements does not cover the report on the Company'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 Company and Grupa Azoty S.A. 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 separate financial statements. Furthermore, based on our knowledge about the Company and its environment obtained in the audit, we have not identified material misstatements in the report on the Company and 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 Company's and Grupa Azoty S.A. Group's activities, includes the information required by paragraph 91 subparagraph 5 point 4 letter a, b, g, 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 separate financial statements.

Requirement of the energy law

The regulatory financial information presented in note 33 of the financial statements comprising the statement of financial position as at 31 December 2016 and statement of profit or loss for the 12 month reporting period then ended, separately for each activity i.e. distribution of electricity, trading in gaseous fuels and other activities of the Company and other explanatory information comprising a summary of significant accounting policies and the supplementary information and explanations, including allocation principles for assets and liabilities, revenues and costs to each activity (jointly referred to as “regulatory financial information”) has been prepared by management in accordance with basis for preparation described in Note 33 to fulfill the requirements of article 44 of the Energy Act dated 10 April 1997 (Official Journal from 2012, item 1059 with amendments) (the “Act”), including within the scope of avoiding discrimination of customers and cross- subsidisation between activities.

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

In our opinion, the regulatory financial information as at 31 December 2016 and for the 12 month reporting period then ended has been prepared, in all material respects, in accordance with the basis for preparation described in Note 33 and article 44 point 2 of the Act.

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

Signed on the Polish original

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

26 April 2017



Grupa Azoty S.A.

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

**Financial Year ended
31 December 2016**



Grupa Azoty S.A.

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

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

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1. General

1.1. General information about the Company

1.1.1. Company name

Grupa Azoty S.A.

1.1.2. Registered office

ul. Kwiatkowskiego 8
33-101 Tarnów

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

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

1.1.4. Management of the Company

The Management Board is responsible for management of the Company.

As at 31 December 2016, the Management Board of the Company was 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 Kapłucha 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 Audyt Sp. z o.o.
Address of registered office: ul. Inflancka 4A, 00-189 Warsaw
Registration number: KRS 0000104753
Registration court: District Court for the Capital City of Warsaw in Warsaw,
XII Commercial Department of the National Court Register
Share capital: PLN 125,000
NIP number: 526-10-24-841

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

1.3. Prior period separate financial statements

The separate financial statements as at and for the financial year ended 31 December 2015 were audited by KPMG Audyt Sp. z o.o. and received an unmodified opinion.

The separate financial statements were approved at the General Meeting on 6 June 2016 where it was resolved to allocate the net profit for the prior financial year of PLN 209,054,968.10 as follows:

- PLN 83,324,206.56 to distribute as a dividend,
- PLN 125,730,761.54 to the reserve capital.

The separate financial statements were submitted to the Registration Court on 22 June 2016.

1.4. Audit scope and responsibilities

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

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

We conducted our audit in accordance with section 7 of the Accounting Act dated 29 September 1994 (Official Journal from 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 separate financial statements at the Company during the period from 28 November to 2 December 2016 and from 23 January to 3 February 2017.



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Management of the Company is responsible for the preparation, on the basis of properly maintained accounting records, of separate 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 Company is also responsible for the Report on the Company's activities.

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

Management of the Company submitted a statement, dated as at the same date as this report, as to the preparation of the separate 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 separate financial statements.

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

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

The Key Certified Auditor and the Audit Firm are independent of the Company 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.

The report on the audit of the separate financial statements
for the financial year ended 31 December 2016
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2. Financial analysis of the Company

2.1. Summary analysis of the separate financial statements

2.1.1. Separate statement of financial position

ASSETS	31.12.2016 PLN '000	% of total	31.12.2015 PLN '000 <i>restated</i>	% of total	1.01.2015 PLN '000 <i>restated</i>	% of total
Non-current assets						
Property, plant and equipment	1 435 521	22.3	1 106 972	18.9	973 836	18.0
Perpetual usufruct right	373	0.0	377	0.0	76	0.0
Intangible assets	50 864	0.8	50 442	0.9	43 214	0.8
Investment property	17 700	0.2	19 754	0.3	20 801	0.4
Investments in subordinated entities	3 871 587	60.1	3 832 536	65.5	3 814 993	70.6
Available-for-sale financial assets	12 134	0.2	12 134	0.2	12 134	0.2
Other receivables	244 220	3.8	218 115	3.7	-	-
Other current assets	-	-	-	-	210	0.0
Total non-current assets	5 632 399	87.4	5 240 330	89.5	4 865 264	90.0
Current assets						
Inventories	171 256	2.7	188 843	3.2	208 250	3.9
Property rights	31 423	0.5	32 272	0.6	30 299	0.6
Derivatives	834	0.0	986	0.0	829	0.0
Other financial assets	53 944	0.8	29 186	0.5	-	-
Current tax assets	-	-	-	-	2 133	0.0
Trade and other receivables	226 678	3.5	252 726	4.3	264 082	4.9
Cash and cash equivalents	326 031	5.1	111 942	1.9	27 431	0.5
Other current assets	-	-	-	-	3 044	0.1
Assets held for sale	691	0.0	340	0.0	107	0.0
Total current assets	810 857	12.6	616 295	10.5	536 175	10.0
TOTAL ASSETS	6 443 256	100.0	5 856 625	100.0	5 401 439	100.0
EQUITY AND LIABILITIES						
	31.12.2016 PLN '000	% of total	31.12.2015 PLN '000 <i>restated</i>	% of total	1.01.2015 PLN '000 <i>restated</i>	% of total
Equity						
Share capital	495 977	7.7	495 977	8.5	495 977	9.2
Share premium	2 418 270	37.5	2 418 270	41.3	2 418 270	44.8
Hedging reserve	(7 105)	(0.1)	65	0.0	-	-
Retained earnings, including: <i>Profit for the year</i>	1 609 995 224 775	25.0 3.5	1 468 459 209 055	25.0 3.6	1 260 094 214 633	23.3 4.0
Total equity	4 517 137	70.2	4 382 771	74.8	4 174 341	77.3
Liabilities						
Non-current liabilities						
Loans	1 166 290	18.1	935 550	16.0	347 263	6.4
Other financial liabilities	1 539	0.0	244	0.0	1 114	0.0
Employee benefits	46 136	0.7	50 679	0.9	49 741	0.9
Provisions	25 992	0.4	24 446	0.4	24 374	0.5
Government grants	19 222	0.3	3 163	0.0	3 313	0.1
Deferred tax liabilities	23 241	0.4	29 770	0.5	22 363	0.4
Total non-current liabilities	1 282 420	19.9	1 043 852	17.8	448 168	8.3
Current liabilities						
Loans	307 375	4.8	48 962	0.8	442 976	8.2
Derivatives	1 108	0.0	499	0.0	738	0.0
Other financial liabilities	58 131	0.9	46 055	0.8	69 590	1.3
Employee benefits	2 994	0.1	2 694	0.1	2 683	0.0
Provisions	2 355	0.0	5 014	0.1	5 780	0.1
Trade and other payables	269 889	4.2	324 464	5.6	256 372	4.8
Government grants	1 847	0.0	2 314	0.0	791	0.0
Total current liabilities	643 699	10.0	430 002	7.4	778 930	14.4
Total liabilities	1 926 119	29.9	1 473 854	25.2	1 227 098	22.7
TOTAL EQUITY AND LIABILITIES	6 443 256	100.0	5 856 625	100.0	5 401 439	100.0



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

	1.01.2016 - 31.12.2016 zł '000	% of total sales	1.01.2015 - 31.12.2015 zł '000 <i>restated</i>	% of total sales
Revenue	1 552 332	100.0	1 768 984	100.0
Cost of sales	(1 305 013)	(84.1)	(1 482 315)	(83.8)
Gross profit	247 319	15.9	286 669	16.2
Selling and distribution expenses	(92 494)	(6.0)	(94 088)	(5.3)
Administrative expenses	(162 346)	(10.4)	(160 144)	(9.1)
Other income	10 180	0.7	11 653	0.7
Other expenses	(31 838)	(2.1)	(39 735)	(2.2)
Results from operating activities	(29 179)	(1.9)	4 355	0.3
Finance income	287 228	18.6	237 625	13.4
Finance costs	(38 142)	(2.5)	(33 044)	(1.9)
Net finance income	249 086	16.1	204 581	11.5
Profit before tax	219 907	14.2	208 936	11.8
Tax expense	4 868	0.3	119	0.0
Profit for the year	224 775	14.5	209 055	11.8
OTHER COMPREHENSIVE INCOME				
Items that will never be reclassified to profit or loss				
Remeasurements of defined benefit liability	106	0.0	(852)	(0.1)
Tax on items that will never be reclassified to profit or loss	(21)	(0.0)	162	0.0
	85	0.0	(690)	(0.0)
Items that are, or may be reclassified to profit or loss				
Cash flow hedges – effective portion of change in fair-value	(8 852)	(0.6)	65	0.0
Tax on items that are or will be reclassified to profit or loss	1 682	0.1	-	-
	(7 170)	(0.5)	65	0
Other comprehensive income for the year	(7 085)	(0.5)	(625)	(0.1)
Profit or loss and other comprehensive income for the year	217 690	14.0	208 430	11.7
Earnings per share				
Basic earnings per share (PLN)	2.27		2.11	
Diluted earnings per share (PLN)	2.27		2.11	



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The report on the audit of the separate financial statements
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2.2. Selected financial ratios

	2016	2015 <i>restated</i>	2014 <i>restated</i>
1. Return on sales			
<u>profit for the year x 100%</u> revenue	14.5%	11.8%	11.6%
2. Return on equity			
<u>profit for the year x 100%</u> equity - profit for the year	5.2%	5.0%	5.4%
3. Debtors' days			
<u>average trade receivables (gross) x 365 days</u> revenue	34 days	34 days	34 days
4. Debt ratio			
<u>liabilities x 100%</u> equity and liabilities	29.9%	25.2%	22.7%
5. Current ratio			
<u>current assets</u> current liabilities	1.3	1.4	0.7

- 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.



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3. Detailed report

3.1. Accounting system

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

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

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